# Agriculture and Rural Development

## Annual Report
2012-2013

Alberta
Government

# Agriculture and Rural Development

## Annual Report 2012-2013


**Preface** 3

**Minister's Accountability Statement** 4

**Message from the Minister** 5

**Management's Responsibility for Reporting** 6

**Agriculture in Alberta** 7

**Ministry Overview** 8

**Results Analysis** 13

- Review Engagement Report (Auditor General's Report) 14
- Performance Measures Summary Table 15
- Discussion and Analysis of Results 16
- Appendix A: Organizational Descriptions 35
- Appendix B: Performance Measure Methodology 38

**Financial Information** 45

- Ministry of Agriculture and Rural Development Financial Statements 45
- Department of Agriculture and Rural Development Financial Statements 65
- Agriculture Financial Services Corporation Financial Statements 89
- Alberta Livestock and Meat Agency LTD. Financial Statements 113

**Other Information** 125

# Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 18 ministries.

The annual report of the Government of Alberta contains ministers' accountability statements, the consolidated financial statements of the province and *Measuring Up* report, which compares actual performance results to desired results set out in the government's strategic plan.

This annual report of the Ministry of Agriculture and Rural Development contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance results to desired results set out in the Ministry business plan. This Ministry annual report also includes:

- financial statements of entities making up the Ministry including the Department of Agriculture and Rural Development, regulated funds, and provincial agencies for which the Minister is responsible;
- other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report; and
- financial information relating to trust funds.

# Minister's Accountability Statement

The Ministry's annual report for the year ended March 31, 2013, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at June 7, 2013 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

*[original signed by]*

***Verlyn Olson, Q.C.***
*Minister of Agriculture and Rural Development*

# Message from the Minister

Agriculture is as much a part of our province as the Rocky Mountains and prairie fields. It is in our roots and it holds great promise for our future. In the past year, Alberta's agriculture industry achieved important milestones, embraced new ideas, reached goals and continued to grow.

In 2012, we recognized 72 Century Farm Families who have actively operated their farms or ranches from generation to generation for 100 years or more. This year also saw the Farmers' Advocate Office celebrating 40 years of helping to protect the interests of rural Albertans and the 'Call of the Land' radio program marking its 60th anniversary. 4-H Canada hit a major milestone with 100 years of offering our youth technical and life skills and the opportunity to be the next generation of leaders in agriculture.

Even as we took time to reflect on our past, we kept our focus on the road ahead. A number of key successes in 2012-13 will help keep Alberta's agriculture industry moving in the right direction for many years to come. For example, the end of the Canadian Wheat Board monopoly on wheat and barley sales ushered in a new era of market freedom for Alberta farmers and the Alberta Wheat Commission and the Alberta Oat Growers Commission were formed to advocate on behalf of producers and fund research and development.

The Next Generation Advisory Council was also created to recommend ways to get more Albertans engaged in the agriculture industry, and the foundation was laid for a new five-year multilateral agreement with our federal partners. Growing Forward 2 focuses on strategic initiatives important to the long-term success of the agriculture industry. The initiatives are focused on innovation, adaptability, building new markets and competitiveness. The agreement also ensures producers continue to have access to an effective suite of business risk management programs.

While our priority is building our agriculture industry and rural communities over the long-term, the past year also saw Alberta Agriculture and Rural Development (ARD) working with stakeholders to meet some more immediate needs. Record hail damage resulted in more than 11,000 claims to the Agriculture Financial Services Corporation (AFSC). Staff worked around the clock to process claims quickly for everyone.

The temporary closure of a meat processing plant due to e. coli contamination created issues for producers and shook consumer confidence. ARD worked closely with the federal inspectors and industry partners to communicate with the public and producers, and I am pleased that the beef industry weathered the issue relatively well.

Whatever challenges and opportunities come our way, the future success of Alberta's agriculture industry will depend on the same qualities and values that have gotten us this far. Our industry and our rural communities are built on hard work, fearless innovation and a willingness to work together to get the job done. With this strong foundation, our government will continue to focus on priorities that matter to all Albertans – investing in our families and communities, opening new markets and living within our means.

During my first full year as Minister of Agriculture and Rural Development, it has been my sincere pleasure to meet with many of our over 600 key stakeholder groups. I am looking forward to working alongside these partners as we reach new milestones, achieve new goals, build Alberta and always continue to grow.

Sincerely,

*[original signed by]*

***Verlyn Olson, Q.C.***
*Minister, Agriculture and Rural Development*

# Management's Responsibility for Reporting

The Ministry of Agriculture and Rural Development includes:

- Department of Agriculture and Rural Development
- Agriculture Financial Services Corporation
- Alberta Grains Council
- Office of the Farmers' Advocate of Alberta
- Irrigation Council
- Agricultural Products Marketing Council
- Alberta Livestock and Meat Agency Ltd.

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and strategic plan, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Agriculture and Rural Development. Under the direction of the Minister, I oversee the preparation of the Ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with Canadian public sector accounting standards. The performance measures are prepared in accordance with the following criteria:

- Reliability – information agrees with underlying data and the sources used to prepare it.
- Understandability and Comparability – current results are presented clearly in accordance with the stated methodology and are comparable with previous results.
- Completeness – performance measures and targets match those included in Budget 2012.

As Deputy Minister, in addition to program responsibilities, I am responsible for the Ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money;
- provide information to manage and report on performance;
- safeguard the assets and properties of the province under Ministry administration;
- provide Executive Council, the President of Treasury Board, the Minister of Finance, and the Minister of Agriculture and Rural Development information needed to fulfill their responsibilities; and
- facilitate preparation of Ministry business plans and annual reports required under the *Government Accountability Act*.

In fulfilling my responsibilities for the Ministry, I have relied, as necessary, on the executives of the individual entities within the Ministry.

*[original signed by]*

***John Knapp***
*Deputy Minister of Agriculture and Rural Development*
June 7, 2013

# Agriculture in Alberta

## Foundation of Alberta's History

Alberta has come a long way since joining Confederation in 1905. One thing that has not changed is the proud tradition of hard-working Albertans tending the land. Our agriculture and food sector has shaped the province's history and communities and will be an integral part of the province's future.

Alberta's first provincial government included a Ministry of Agriculture. Its role in the early years was that of a regulator and supporter, focused on helping new farmers make their way in the industry and guiding people on how to farm. The 1905-1906 Annual Report stated "one of the best works [the Department] can do for the farmer is to put him in possession of the latest and most improved methods of pursuing his work and of producing and marketing his product." Today, we have shifted to a stewardship role, but still maintain commitment to research and innovation and helping farmers gain access to markets. As a foundation to our stewardship role, we are also helping our producers to be profitable, diversify their crops and products, develop environmentally sustainable practices, and focus on value-added processing and manufacturing.

## Evolution of the Industry

In Alberta's formative years, farmers relied primarily on wheat as their main crop. As drought, frosts, diseases, and pests caused frequent crop failures, farmers discovered they were better off diversifying with mixed farms, raising livestock as well as field crops.

Today, Alberta remains a leader in Canada in agriculture production, with canola, wheat, and barley being the province's largest revenue-generating crops. The vast majority of livestock production is in cattle (that generates the highest farm cash receipt) followed by dairy, hogs, and poultry. Farming here has become more specialized, with the typical farm becoming larger and requiring greater investment. These larger farms are producing food not only for domestic markets, but for markets around the world.

With the market for Alberta's agricultural products growing on a global scale, Alberta producers and processors now take a much more global view of marketing and competitiveness. The industry has seen great benefit from innovation, from improved yields to more environmentally sound practices, and the sector continues to show leadership and commitment to continuous improvement.

As Alberta's largest renewable industry, agriculture generated more than $9 billion in exports last year. According to a 2012 Conference Board of Canada analysis, the total economic footprint of Alberta's rural economy is estimated to be approximately $79 billion annually. This contribution showcases the need to maintain strong rural communities and to foster innovation and development in rural Alberta.

## Meeting the Needs of Albertans, Canadians, and the World

As developing nations give rise to a growing middle class, there is an increased demand for safe and high quality food. As one of the few jurisdictions positioned to be a net exporter of agri-food products in the next 20 years, Alberta has additional opportunities to gain a competitive advantage by identifying markets for verified, high quality goods, value-added processing and product attributes, and the promotion of non-food use of agricultural products.

Our future success in the agriculture and food sector will stem from our commitment to be innovative and our continued work in partnership with community leaders, businesses, industry associations, and farmers in rural Alberta.

# Ministry Overview

**Agriculture and Rural Development**

Throughout the years, the Ministry has been known in many forms: Agriculture; Agriculture and Food; Agriculture, Food, and Rural Development; and currently, Agriculture and Rural Development. But no matter our title, our strong commitment to Albertans remains the same. Our Mission is to lead in the creation and transmission of knowledge and innovation; provide the frameworks and services necessary for Alberta's agriculture and food sector to excel; to assure the public of the quality and safety of their food; and to lead the collaboration that enables resilient rural communities.

We work with industry and stakeholders to manage growth pressures, build a stronger Alberta, and improve Albertans' quality of life. Our primary focus is to help create opportunity, which we do by enhancing value-added activity, increasing research and innovation, and working closely with our key stakeholder groups through our extension work. We work with others to promote prosperity for Alberta through a strong, competitive, sustainable agriculture and food industry and vibrant rural communities.

Our Vision is to be a trusted partner of industry and stakeholders in enabling a competitive, sustainable agriculture and food sector and vibrant rural communities across Alberta. As such, the Ministry of Agriculture and Rural Development strives for the following outcomes in our work:

- a competitive self-reliant industry
- environmental stewardship
- farmed animal health and welfare, plant health, and safe food products
- a vibrant, resilient and sustainable rural Alberta

Over the next decade and beyond, we will continue to assist industry and rural communities in seizing opportunities to reinforce economic competitiveness and build lasting prosperity, as well as reflect the interests of rural Albertans within the context of Alberta's overall social, economic, and environmental goals. In addition, we will continue to inspire confidence in the quality and safety of Alberta produced food and inform consumers about Alberta agriculture and food products.

In order to accomplish these goals, the Ministry works together through the following entities:

- Department of Agriculture and Rural Development
- Agriculture Financial Services Corporation
- Alberta Livestock and Meat Agency Ltd.
- Office of the Farmers' Advocate of Alberta
- Alberta Grains Council
- Agricultural Products Marketing Council
- Irrigation Council

A detailed description of each Ministry entity can be found in Appendix A, starting on page 35.

Further information about Ministry programs and services can be found at: ***www.agric.gov.ab.ca.***

The Ag-Info Centre is also available for additional information by calling toll-free in Alberta 310-FARM (3276).

## Industry Overview and Outlook

Agriculture in Alberta had a number of notable successes over the past year, including good crop yields, high commodity prices, and above average beef prices. Optimism in agriculture has created increased investment and the structures of both the crop and livestock sectors continue to evolve.

The past year also saw the agriculture industry face a number of challenges, including record hail damage, the temporary shutdown of the Brooks beef processing plant, a challenged pork industry, and the rat infestation in Medicine Hat.

The record hail damage for farmers led to over 11,000 claims, and showcased the importance of reliable and effective hail insurance in Alberta, which is purchased by the majority of producers.

The temporary shutdown of the XL Foods plant and the ensuing recall of beef highlighted the importance of strong traceability systems in the province to ensure safe food products are available to consumers.

While the pork industry saw low hog prices and high feed costs, a number of programs were in place to support producers during difficult times, such as AgriStability, AgriInvest, and the Hog Price Insurance Program. We are working with industry and the federal government to ensure that hog producers are fully utilizing existing programs. Hog producer claims are being given priority so they can benefit from the programs as soon as possible. Pork is the most consumed protein globally and a stronger hog market is expected in coming years.

Though a rat infestation was discovered in Medicine Hat, the infestation was eliminated quickly thanks to the hard work and strong partnership between government staff, the City of Medicine Hat, and Cypress County. Alberta's rat patrol program, which has been in place since 1950, continues to ensure rats never make a permanent home in Alberta and that the province maintains its rat-free status.

The past year also saw pressures on government finances. Budget 2013 announced the removal of the six-cent-per-litre Alberta Farm Fuel Distribution Allowance portion of the Alberta Farm Fuel Benefit (AFFB) Program, which cost the province approximately $30 million annually. Alberta was the only province in Canada that had both a tax exemption (nine-cents-per-litre) as well as a rebate for farm fuel. The nine-cent-per-litre tax exemption remains untouched, and is among the best exemptions offered in Canada. The AFFB Program continues to provide fuel to producers at a rate consistent with prices paid by other western Canadian producers. Government's priority continues to be building an agriculture industry that is competitive and sustainable. Funding is being focused on programs that will help achieve the best long-term results for the agriculture sector, producers and communities, such as research and innovation, industry and market development, food safety and rural development.

Looking forward, Alberta's agriculture and agri-food processing industry will face challenges to meet the required labour demand from within Canada. It is estimated that Canada's primary agricultural producers will need an additional 50,000 non-seasonal and 38,000 seasonal workers, so it is apparent there is a need to recruit and retain more workers to the industry to meet new workforce requirements. In view of the fact that the unemployment rate in Alberta is the lowest in Canada, recruiting and retaining agricultural workers will be a bigger challenge here than in other provinces. Assessing and adopting technologies and automation is one of the solutions to increase productivity and reduce the need to source new workers. New technology and automation is seen as a more viable option in food processing compared to primary agriculture. The main challenge in adopting new technology and automation is the associated high cost and uncertainty of the return on investment.

With Alberta being a net exporter of livestock, meat products, and crops, market volatility affects the agricultural industry in a number of ways. World supply shortfalls in grains and oilseeds benefitted producers, but impacted the livestock industry by providing margin challenges as feed prices soared. Fed cattle prices remained strong, though high feeding costs eroded feedlot margins. The United States remained the major importer of Alberta beef, taking approximately 68 per cent of Alberta's export value, though dependence on a single export market makes the province vulnerable to impacts of regulatory and technical barriers such as import bans and country of origin labeling. As a result of increased market and product diversification, canola seed and crude canola oil exports to the European Union have seen tremendous growth.

The past year demonstrated that there are many challenges and opportunities beyond the scope of our control. But it also demonstrated the foresight shown across government and industry with processes, programs, and contingencies in place to minimize the disruption of unforeseen events, and our ability to capitalize on opportunities when they become available.

# Alberta Agriculture and Agri-Food Industry

Data shown in the tables below are current as of June 3, 2013

| | | 2010 | 2011 |
|---|---|---|---|
| **Annual Average Household Food Expenditure** | **Average Household Expenditure on Food (Dollars)** | **$8,836** | **$8,512** |
| | *% of Total Average Household Expenditure* | *10.4%* | *9.8%* |
| | ▪ Food Expenditure in Stores | $6,309 | $6,059 |
| | ▪ Food Expenditure in Restaurants | $2,527 | $2,453 |

| | | 2011 | 2012 |
|---|---|---|---|
| **Real Gross Domestic Product (GDP) in 2007 Dollars** | **Total Alberta Economy ($ Billions)** | **$266.39** | **$276.91** |
| | ▪ Agri-Food Industries | $6.59 | $6.60 |
| | ▪ Agriculture Industries | $3.75 | $3.70 |
| | ▪ Food and Beverage Manufacturing Industries | $2.84 | $2.90 |
| **Employed Labour Force** | **Agri-Food Industries (Number of Persons)** | **73,200** | **75,900** |
| | *% of Total Alberta Employment* | *3.5%* | *3.5%* |
| | ▪ Agriculture Industries | 51,800 | 56,200 |
| | ▪ Food and Beverage Manufacturing Industries | 21,400 | 19,700 |
| | *% of Total Manufacturing Industries* | *15.1%* | *14.2%* |
| **Farm Income** | **Total Farm Cash Receipts ($ Billions)** | **$10.52** | **$12.00** |
| | ▪ Crops | $5.18 | $6.34 |
| | *% of Total Cash Receipts* | *49.2%* | *52.8%* |
| | ▪ Livestock and Livestock Products | $4.66 | $4.89 |
| | *% of Total Cash Receipts* | *44.3%* | *40.8%* |
| | ▪ Direct Program Payments | $0.68 | $0.77 |
| | *% of Total Cash Receipts* | *6.5%* | *6.4%* |
| | **Farm Operating Expenses (After Rebates and Before Depreciation) ($ Billions)** | **$8.59** | **$9.13** |
| | **Net Cash Farm Income ($ Billions) [1]** | **$1.92** | **$2.88** |
| | **Realized Net Income ($ Billions) [1]** | **$0.49** | **$1.37** |
| | **Total Net Income ($ Billions) [1]** | **$0.90** | **$0.66** |
| **Food Manufacturing Industries Value of Sales** | **Food Industries ($ Billions)** | **$9.91** | **$11.85** |
| | *% of Total Alberta Manufacturing Sales* | *14.1%* | *16.1%* |
| | **Top Three Largest Food Manufacturing Sales Groups:** | | |
| | 1. Meat Products | $4.92 | $5.92 |
| | 2. Grain and Oilseed Milling | $1.69 | $1.71 |
| | 3. Animal Food (Including Feed) | $0.66 | $0.85 |
| **Agri-Food Exports to All Countries** | **Total Agri-Food Exports ($ Billions)** | **$8.06** | **$9.21** |
| | ▪ Animals and Crops | $4.52 | $5.53 |
| | ▪ Value Added Products | $3.54 | $3.68 |
| **Capital Investment Expenditures** | **Total Capital Investment - All Industries ($ Billions)** | **$90.03** | **$98.19** |
| | ▪ Agri-Food Industries | $1.37 | $1.50 |
| | ▪ Agriculture Industries | $1.27 | $1.31 |
| | ▪ Food and Beverage Manufacturing Industries | $0.10 | $0.18 |
| **Production of Top Three Major Field Crops** | **1. All Wheat (tonnes)** | **8,839,600** | **8,368,800** |
| | *% of Canadian Production* | *35.0%* | *30.8%* |
| | **2. Canola (tonnes)** | **5,347,900** | **4,898,800** |
| | *% of Canadian Production* | *36.6%* | *36.8%* |
| | **3. Barley (tonnes)** | **4,668,000** | **4,463,300** |
| | *% of Canadian Production* | *59.2%* | *55.7%* |

| | | | |
|---|---|---|---|
| **Meat Production Quantity** [2] | Beef - Western Canada [3] (tonnes) | 787,040 | 731,565 |
| | Pork - Alberta (tonnes) | 227,859 | 221,248 |
| **Number of Livestock Slaughtered** [2] | Cattle and Calves - Western Canada [3] (Head) | 2,211,271 | 2,015,877 |
| | Hogs - Alberta (Head) | 2,507,035 | 2,406,048 |

| | | 01/01/2012 | 01/01/2013 |
|---|---|---|---|
| **Livestock Inventory on Farms on January 1st** | **Cattle and Calves (Head)** | **4,900,000** | **5,010,000** |
| | *% of Canada* | *40.1%* | *40.8%* |
| | **Hogs (Head)** | **1,415,000** | **1,405,000** |
| | *% of Canada* | *11.1%* | *11.0%* |
| | **Sheep and Lambs (Head)** | **154,000** | **158,000** |
| | *% of Canada* | *17.4%* | *17.7%* |

| Census of Agriculture - Alberta | | 2006 | 2011 |
|---|---|---|---|
| **Rural Population** | **Total Population of Alberta** | **3,290,350** | **3,645,257** |
| | ▪ Rural Population | 590,499 | 614,855 |
| | *% of Total Population* | *17.9%* | *16.9%* |
| | ▪ Population Centres (Urban) Population | 2,699,851 | 3,030,402 |
| **Number of Farms** | Number of Farms | 49,431 | 43,234 |
| | *% of Total Canadian Farms* | *21.6%* | *21.0%* |
| **Farmland Area** | Total Farmland Area (Acres) | 52,127,857 | 50,498,834 |
| | *% of Canadian Farmland Area* | *31.2%* | *31.5%* |
| **Land Area in Crops** | Land Area in Crops (Acres) | 23,775,509 | 24,102,289 |
| | *% of Canada* | *26.8%* | *27.6%* |
| **Average Farm Size** | Average Farm Size (Acres) | 1,055 | 1,168 |
| **Farm Operators** | **Number of Farm Operators** | **71,660** | **62,050** |
| | ▪ Average Age of Farm Operators | 52.2 years | 54.5 years |
| | *% Distribution By Age Group:* | | |
| | ▪ *Under 35 years* | *8.8%* | *7.3%* |
| | ▪ *35 to 54 years* | *50.1%* | *43.1%* |
| | ▪ *55 years and over* | *41.1%* | *49.6%* |
| **Farms by Type** [4]**: Top Five Farm Types (Number of Farms)** | 1. Grain and Oilseed | 12,562 | 12,692 |
| | 2. Beef Cattle (Including Feedlots) | 20,494 | 12,022 |
| | 3. Other Crops (Excluding Grain and Oilseed) | 5,361 | 9,385 |
| | 4. Other Animals (Excluding Beef Cattle) | 7,414 | 6,374 |
| | 5. Greenhouse, Nursery, and Floriculture | 910 | 826 |
| **Farms by Sales Class: % of Total Number of Farms** | ▪ *Under $10,000* | *19.8%* | *17.8%* |
| | ▪ *$10,000 to $24,999* | *17.6%* | *18.2%* |
| | ▪ *$25,000 to $99,999* | *29.6%* | *27.7%* |
| | ▪ *$100,000 to $499,999* | *26.6%* | *26.0%* |
| | ▪ *$500,000 and Over* | *6.4%* | *10.3%* |
| **Land Area Seeded Using No-Till Practices** | **Total Land Area Prepared for Seeding (Acres)** | **18,726,144** | **19,945,813** |
| | ▪ No-Till or Zero-Till Seeding Area | 8,950,836 | 12,924,625 |
| | *% of Total Land Area Prepared for Seeding* | *47.8%* | *64.8%* |
| **Irrigation Area** | Irrigated Farmland (Acres) | 1,325,929 | 1,241,411 |
| | *% of Canadian Irrigated Area* | *63.5%* | *65.2%* |

(1) Estimates prepared by Alberta Agriculture and Rural Development
(2) Federally and provincially inspected slaughter irrespective of origin
(3) Western Canada data only; breakdown for Alberta unavailable
(4) Farms classified by the commodity or group of commodities that make up the majority of total receipts; based on the North American Industry Classification System (NAICS)

Sources: Statistics Canada, Agriculture and Rural Development, Agriculture and Agri-Food Canada; Census data for 2006 and 2011 are from Census of Population and Census of Agriculture

More detailed statistical information can be found on the Statistics page on the Ministry website **www.agric.gov.ab.ca**

# RESULTS ANALYSIS

AUDITOR GENERAL *Alberta*

# Review Engagement Report

To the Members of the Legislative Assembly

I have reviewed the performance measures identified as reviewed by the Office of the Auditor General in the Ministry of Agriculture and Rural Development's Annual Report 2012 2013. The reviewed performance measures are the responsibility of the ministry and are prepared based on the following criteria:

- Reliability – The information used in applying performance measure methodologies agrees with underlying source data for the current and prior years' results.
- Understandability – The performance measure methodologies and results are presented clearly.
- Comparability – The methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- Completeness – The goals, performance measures and related targets match those included in the ministry's budget 2012.

My review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to me by the ministry.

A review does not constitute an audit and, consequently, I do not express an audit opinion on the performance measures. Further, my review was not designed to assess the relevance and sufficiency of the reviewed performance measures in demonstrating ministry progress towards the related goals.

Based on my review, nothing has come to my attention that causes me to believe that the performance measures identified as reviewed by Office of the Auditor General in the ministry's annual report 2012-2013 are not, in all material respects, presented in accordance with the criteria of reliability, understandability, comparability and completeness as described above.

[Original signed by Merwan N. Saher, FCA]
Auditor General

May 24, 2013
Edmonton, Alberta

**Performance measures reviewed by the Office of the Auditor General are noted with an asterisk (*) on the Performance Measures Summary Table**

# Performance Measures Summary Table

| Performance Measures | | Prior Year's Results | | | | Target | Current Actual |
|---|---|---|---|---|---|---|---|
| **Goal 1: A competitive self-reliant industry** | | | | | | | |
| 1.a: | Number of value-added products developed and successfully introduced to market with assistance from Agriculture and Rural Development | 75 (2008-09) | 71 (2009-10) | 90 (2010-11) | 157 (2011-12) | **71** | 216 (2012-13) |
| 1.b:* | Research and development investment by collaborators leveraged through ministry resources ($ million) | 6.2 (2008-09) | 11.1 (2009-10) | 7.4 (2010-11) | 6.2 (2011-12) | **7.5** | 6.4 (2012-13) |
| 1.c:* | Percentage of eligible seeded acres for major crop categories insured under Production Insurance / AgriInsurance: | | | | | | |
| | ▪ Annual crops | 68% | 71% | 73% | 73% | **70%** | 75% |
| | ▪ Perennial crops | 24% (2008) | 24% (2009) | 28% (2010) | 23% (2011) | **24%** | 28% (2012) |
| **Goal 2: Environmental stewardship** | | | | | | | |
| 2.a: | The average percentage of improved environmentally sustainable agriculture practices adopted by producers (biennial survey) | n/a (2008-09) | n/a (2009-10) | n/a (2010-11) | 55% (2011-12) | **n/a** | n/a |
| **Goal 3: Farmed animal health and welfare, plant health, and safe food products** | | | | | | | |
| 3.a: | Percentage of Alberta licensed meat processing facilities that have added a preventative system to their existing food safety system | n/a (2008) | n/a (2009) | 86% (2010) | 88% (2011) | **83%** | 91% (2012) |
| 3.b: | Number of Alberta food processing facilities participating in the Alberta Hazard Analysis Critical Control Point (HACCP) Advantage Program | 104 (2008-09) | 50 (2009-10) | 53 (2010-11) | 34 (2011-12) | **33** | 45 (2012-13) |
| **Goal 4: A vibrant, resilient and sustainable rural Alberta** | | | | | | | |
| 4.a:* | Total leveraged investment in rural businesses facilitated through Agriculture Financial Services Corporation lending services ($ million) | 399 (2008-09) | 565 (2009-10) | 640 (2010-11) | 658 (2011-12) | **575** | 663 (2012-13) |
| 4.b: | Percentage of ministry-supported, agricultural-related community activities that focus on leadership development | 33% (2008-09) | 31% (2009-10) | 33% (2010-11) | 29% (2011-12) | **31%** | 35% (2012-13) |
| 4.c: | Percentage of rural youth and adults participating in ministry-supported programs that report effective learning from those programs | n/a (2008-09) | n/a (2009-10) | 95% (2010-11) | 95% (2011-12) | **91%** | 92% (2012-13) |

* Indicates Performance Measures that have been reviewed by the Office of the Auditor General. These were selected for review by Ministry management based on the following criteria established by government:

1. Enduring measures that best represent the goal;
2. Measures for which new data is available; and
3. Measures that have well established methodology.

*All notes regarding these measures appear under the corresponding goal in this report.*

Further information on performance measures methodology, including data sources and limitations, can be found in Appendix B starting on page 38.

# Discussion and Analysis of Results

## Financial Results of Operations

### Expense by Function

All Ministry Expenses, with the exception of debt servicing costs, are reported under the Government of Alberta function: Agriculture, Resource Management and Economic Development.

### Revenue

Ministry revenue was $739 million, $39 million higher than 2011-12 and $5 million lower than budget.

*Compared to 2011-12 Actual*

Increase in revenue from previous year is primarily due to increased coverage levels in AgriInsurance as a result of a shift to higher priced commodities as well as increased participation in Livestock Insurance due to fluctuations in cattle prices. AFSC also recorded revenue of $9 million for hail reinsurance recoveries resulting from the high volume of hail insurance claims.

*Compared to Budget 2012*

Reduced revenue compared to budget is due to lower federal contributions for the AgriStability program as well as lower than expected interest income on our lending portfolio due than projected interest rates. High crop, hail and livestock premiums and hail reinsurance recoveries partially offset the revenue reductions.

### Expense

Ministry expense was $1,235 million. Insurance and agriculture income support accounted for $823 million or 67% of total expense.

*Compared to 2011-12 Actual*

Total expense was $257 million higher than 2011-12.

- Indemnity payments for crop and hail insurance were $269 million higher than the previous year due to the severe hail storms in 2012-13.
- Other department expenses were $37 million lower than the previous year as a result of one-time payments in 2011-12 for the Calgary Stampede Centennial ($25 million) and crop research grants ($12 million).

*Compared to Budget 2012*

Total expense was $157 million higher than budget.

- Indemnity payments for crop and hail insurance were $260 million higher than budget due to the severe hail storms in 2012-13.
- Agriculture income support expenses were $114 million lower than the previous year as a result of reduced payments for the federal/provincial AgriStability programs.

## GOAL 1: A competitive self-reliant industry

What this means:

An industry that maintains or grows domestic and international market share, successfully introduces new products into the market, expands value-added processing, and becomes more profitable from the marketplace. This goal recognizes the importance of policy, advocacy, programs, and services in creating a conducive business environment to reinforce and promote the economic competitiveness of Alberta's agriculture industry.

Why this is important:

The long-term viability and prosperity of the industry is dependent on being competitive and profitable in the marketplace. Fiscal constraints and rising competition for public funds will continue to put pressures on the agriculture industry to become self-reliant. A growing and prosperous agriculture industry will continue to make significant contributions to the provincial economy and well-being (GDP, employment, economic diversification, and rural development).

How we support this:

In support of this goal, we deliver targeted extension programs and services, research-based information, and innovative business tools to encourage industry adoption of best practices. We promote research, development, and commercialization of new products to improve the competitiveness, profitability, and growth of the industry. We work with our clients along a continuum of growth from innovation, product development and commercialization through to helping them to become active exporters and attract investment from key sources around the world. We develop policies and administer enabling legislation and regulations aimed at creating a stable and secure business environment. We work with the federal government and other provinces to develop and implement the National Growing Forward 2 framework. We work with the federal government and industry stakeholders to improve access to international markets for Alberta's agricultural products. Through the building of networks with international governments and industry, we increase Alberta's access to international markets and attract investment. We develop programs that encourage worker recruitment, retention, and productivity. We collaborate with partners and stakeholders to implement key actions that contribute to Alberta's economic prosperity.

### Key Highlights and Considerations from 2012-13

- **Signing of the Canada-Alberta Growing Forward 2 Agreement:**
  The new five-year agreement with the federal government puts a $406 million investment toward initiatives such as research, international market development, investment attraction, environmental stewardship, food safety, and water management. This represents a 50 per cent increase from the previous Growing Forward agreement, and highlights the importance of agriculture to Alberta, Canada, and the world.

- **Marketing Freedom for Wheat and Barley Producers:**
  On August 1, 2012, the federal government enacted the *Marketing Freedom for Grain Farmers Act*, which removed the single desk for marketing western Canadian wheat and barley. Alberta producers now move to freedom of choice in marketing wheat and barley crops, and can make decisions that are in the best interest of their farming operations. The Ministry supported the implementation of the open market system in Western Canada by working closely with producers and the agriculture industry to determine their needs, provide increased awareness, and provide a

variety of information to support them through this change. Through a diverse extension platform of 120 events and activities, we engaged an audience of over 10,000 Alberta farmers.

- **New Commissions Launched:**
  The past fiscal year saw the establishment of two new commissions, the Alberta Wheat Commission and the Alberta Oat Growers Commission, through regulations approved under the *Marketing of Agricultural Products Act*. These commissions help build a stronger and more competitive provincial grain industry, advocate on behalf of producers, and fund research and marketing projects. The establishment of these commissions was the accumulation of over two years of consultation and support from producers and grain buyers.

- **Market Access and Investment Attraction:**
  To help promote government and industry networks and secure long-term opportunities in the development and expansion of markets for Alberta products, we undertook missions to priority markets for Alberta products, including the United States, China, Japan, Mexico, South Korea, and the European Union, as well as Russia, India and the Middle East. Alberta agriculture suppliers and industry associations realized heightened product awareness and transactional benefits with estimated incremental export sales valued at approximately $80 million as a direct result of these market development activities.

## Additional Results and Ongoing Contributions

Additional results and ongoing contributions of the Ministry toward achieving our goal of a competitive self-reliant industry include:

- Worked with federal agencies and other Government of Alberta departments to increase access to international markets through: providing input into establishing regional/bilateral free trade agreements; resolving trade disputes with trading partners to increase market access internationally; and, providing input towards concluding the World Trade Organization agriculture negotiations.
- Worked with the federal government on an agreement with the European Union to eliminate all forms of import tariffs and remove non-tariff trade barriers, including scientific bans on genetically modified crops. We also provided analysis and input to Canada's agriculture negotiators on the Canada-European Union Comprehensive Economic and Trade Agreement (CETA). This input contributed to a strong and coordinated negotiating approach that led to significant gains in market access for grains, oilseeds and processed food products. Work continues to secure significant gains under the CETA for beef and pork.
- Launched an Investment Attraction Branch (IAB) dedicated to attracting firms and assisting Alberta's agriculture and agri-food processing companies to attract international capital. In 2012-13, IAB facilitated $350 million in corporate investment (current and planned).
- Continued advances in Alberta's livestock and meat sector through the Alberta Livestock and Meat Agency Ltd. (ALMA). ALMA fosters progress and stakeholder relationships to enhance competitiveness (research, market development, quality assurance, and commercialization); generate growth (new products and markets); and enhance the ability of industry to strategically plan for the future.
- Continued collaboration and engagement with industry, academic institutions, and other research firms to build a solid foundation for innovation and creativity in ensuring a sustainable agriculture industry and contributing to a prosperous economy. As an example, the AgTech Centre collaborated with the Canola Council of Canada and with Agriculture and Agri-Food Canada to

investigate the effect of critical factors on canola emergence, which led to an understanding of canola emergence variability and the costs and losses in potential yields.

- Provided support to Alberta's greenhouse and crop industries to remain competitive and progressive in the world by offering the facilities, technology, and people required to address the opportunities and challenges in crop production. The operation of the Greenhouse Research and Production Complex in Brooks helps ensure that Alberta continues to be on the leading edge of applied and adaptive research, technology transfer, and technology commercialization.
- Provided the necessary tools and services to assist industry in managing risks. This includes the development of several online tools that allow producers, other ministries, and levels of government to better understand and track Alberta's climate and weather, and manage weather-related risks (flood, fire, and severe weather events) throughout the year. In addition, ALMA supported the design of a multi-user online program that allows cattle feeders to manage their risk portfolio in real-time.
- Continued support for the Workforce Development Strategy, which helps Alberta agri-food processing companies and primary producers assess and adopt technologies and automation to increase worker productivity, retain workers, reduce worker turnover, and recruit workers within Canada and internationally.
- Advocated for revisions to the United States (US) Mandatory Country-of-Origin Labelling (MCOOL) regime to bring it into compliance with US obligations as a member of the World Trade Organization. This advocacy was carried out in forums such as the Tri-National Agricultural Accord and the annual meeting of the Pacific Northwest Economic Region. The Canadian Cattlemen's Association estimates that MCOOL costs $25 to $40 per head of cattle shipped to the US for an annual cost of $150 million. The Canadian Pork Council estimates losses to the Canadian hog industry of $500 million per year.

### Performance Measure:

1a. Number of value-added products developed and successfully introduced into market with assistance from Agriculture and Rural Development

### Desired Trend in Target:

An increase in the number of value-added products developed and successfully introduced to market with assistance from Agriculture and Rural Development.

### Results:

| | | | Year Ending March 31 | |
|---|---|---|---|---|
| Actual 2008-2009 | Actual 2009-2010 | Actual 2010-2011 | Actual 2011-2012 | Last Actual 2012-2013 |
| 75 | 71 | 90 | 157 | **216** |

**Source: Agriculture and Rural Development**

### Discussion of Results:

This measure tracks the number of value-added products developed and successfully introduced to market with support from Ministry staff and highlights the contribution and support the Ministry makes to the growth of Alberta's value-added industry. The Ministry influences the development of value-added products through the provision of science, technical, and business development expertise. Additionally, department breeding programs develop new crop varieties and support bringing them to market. These programs and services have a strong focus on helping producers,

processors, and entrepreneurs gain the tools and expertise they need to build and expand their businesses and further diversify Alberta's agri-food sector.

In March 2013, the federal-provincial-territorial governments signed a new Growing Forward 2 agreement to enhance a sustainable and profitable agricultural sector across Canada. Funding from the agreement complements the Ministry's efforts in facilitating value-added processing of agriculture commodities through applied research, laboratory/pilot plant development, and pilot plant scale-up to develop and commercialize new products, introduce new technologies and improve existing processes.

To realize an increase in market-driven commercialization of value-added products, the Ministry maintains the Food Processing Development Centre, the Consumer Product Testing Centre, the Food Science and Technology Centre – Brooks, and the Agri-value Processing Business Incubator, which house modern and fully equipped product development and culinary laboratories, a pilot plant, and an incubator facility. These facilities were used by 47 companies and 14 organizations to develop 186 different food products for research and industry clients. These services address industry demands and shifting consumer trends in health, nutrition, convenience, and packaging, thereby assisting with product success in a changing market place. In addition, Ministry staff assisted industry in introducing 27 cosmetic ingredients and 8 biomaterial products into the marketplace. The service provided to industry adds value to Alberta grown crops, provides opportunity for diversification, opens new markets for Alberta crops, and supports investment attraction opportunities.

A total of 216 new value-added products were developed and successfully introduced to market with assistance from Agriculture and Rural Development in 2012-13. This result was approximately 200 per cent above the target of 71 and 38 per cent higher than the prior year's result of 157. The significant increase in the 2012-13 result can be attributed to the tremendous success of the previous Growing Forward agreement, which served as an important catalyst over the past five years through the product and market development programs. Similar results are anticipated through strategic programming offered through the new Growing Forward 2 agreement. These programs will support costs such as product development, market development, labelling, and business planning. The Ministry recognizes that the length of time to successfully launch new products is dependent on a number of factors and may take several months after new product development work is completed. It typically takes 18 months to two years for a product to develop from concept to commercialization. As such, the targets and actuals represent a snapshot in time as opposed to a full picture of product development activity in the province.

### Performance Measure:

1b. Research and development investment by collaborators leveraged through Ministry resources ($ million)

### Desired Trend in Target:

Increased research and development investment by collaborators leveraged through Ministry resources.

### Results:

Year Ending March 31

| Actual 2008-2009 | Actual 2009-2010 | Actual 2010-2011 | Actual 2011-2012 | Last Actual 2012-2013 |
|---|---|---|---|---|
| 6.2 | 11.1 | 7.4 | 6.2 | **6.4** |

Source: Agriculture and Rural Development

### Discussion of Results:

This measure tracks the amount of funds leveraged from outside sources and provides an indication of the Ministry's success in building partnerships with external collaborators. External collaborators include industry organizations, producer groups, private companies, universities, government departments and agencies.

In collaboration with external partners, the Ministry conducts research and development projects to address challenges and opportunities identified by producers and processors of the agriculture value chain in Alberta. The research and development projects covered under this measure fall into four primary areas: value-added processing, livestock development, crop diversification, and environmental sustainability. Targeted and proactive research and development projects are conducted to generate information, technology and innovative solutions to problems that enable industry to better address production and/or processing related issues and capitalize on market opportunities. Ministry resources devoted to research and development projects are leveraged through financial contributions from collaborators.

In 2012-13, the Ministry collaborated with industry in conducting 108 research and development projects aimed at finding innovative solutions to problems encountered by primary agricultural production and the value-added processing sector. Knowledge gained from these projects help attract further investment in new technologies and processing equipment, as well as position Alberta's agriculture value chain to increase its capacity, competitiveness, and profitability.

The actual result of $6.4 million leveraged funding from outside sources for investment in research and development is 15 per cent below the forecasted target of $7.5 million, but three per cent higher than the prior year's result of $6.2 million. While the Ministry desires incremental growth in resources from agri-industry that are dedicated to research and development, there is recognition that the Ministry has a limited influence in the amount of research funding from external sources. Given continuous shifts in resource allocation to address unforeseen circumstances and/or new priorities, the amount expended for research and development can undergo significant fluctuations.

### Performance Measure:

1c. Percentage of eligible seeded acres for major crop categories insured under Production Insurance/AgriInsurance (Annual and Perennial crops)

### Desired Trend in Target:

An increased number of eligible seeded acres of annual and perennial crops in Alberta are insured under Production Insurance/AgriInsurance.

### Results:

Year Ending December 31

| | Actual 2008 | Actual 2009 | Actual 2010 | Actual 2011 | Last Actual 2012 |
|---|---|---|---|---|---|
| Annual crops | 68% | 71% | 73% | 73% | **75%** |
| Perennial crops | 24% | 24% | 28% | 23% | **28%** |

Source: Statistics Canada; Agriculture Financial Services Corporation (AFSC)

### Discussion of Results:

This measure indicates the success of the Ministry in providing customized insurance products to producers, based on individual producer risk preference. The Agriculture Financial Services Corporation (AFSC) provides a wide variety of risk management products and financial services to fit the business needs of farmers, the agriculture industry and small businesses in Alberta.

AFSC delivers the federal/provincial AgriStability program, a whole-farm program that provides compensation for declines in farm margin relative to historical margin for eligible producers, regardless of the commodities they produce. AFSC offers agriculture financial services such as farm loans and guarantees for new and expanding farm businesses and financing for those facing disastrous reductions in farm production or income.

Production insurance (AgriInsurance) continues to be viewed as an important risk management tool for Alberta producers. It mitigates the effects of unstable production with 14.2 million acres and $4.5 billion in risk insured on annual crops, and 7.4 million acres and $152.3 million in risk insured on perennial crops. In 2012-13, production insurance claims for annual crops (including hail endorsement) totalled $534.8 million, and claims for perennial crops totaled $4.0 million. Insurance continues to be a relevant risk management tool for Alberta agriculture producers, as evidenced by the target of insured acres being surpassed again in 2012-13, continuing the trend since 2007-08.

The percentage of annual crops insured under Production Insurance has slightly increased over the last three years. The actual result of 75% is 5% above the Ministry's forecasted target of 70%, and 2% higher than the last actual of 73%. The historical performance has been trending upwards for Annual Crops due to the high financial risk for agriculture producers as a result of high input costs and high commodity prices while perennial crops have been fairly constant. Producers maintain a high coverage for the annual crops as unfavourable growing/moisture conditions may result in a total loss of crops/harvest.

Approximately 28% of all eligible perennial crops covered under Production Insurance in calendar year 2012 had some coverage under Production Insurance, based on individual producer risk preference. The reported actual result of 28% is 4% higher than the forecasted target of 24% and 5% above the prior year's result of 23%. Participation varies under perennial crop insurance annually; increased participation in 2012 is likely related to dry conditions experienced in the fall of 2011.

## GOAL 2: Environmental Stewardship

What this means:

This goal is directed at exploring and implementing environmentally responsive solutions that enable the agricultural sector to increase water use efficiency, minimize its environmental footprint, and promote competitiveness.

Why this is important:

The agriculture and food sector is influenced by environmental issues and increasing public awareness and pressure for the effective management of air, land, and water resources. The policy responses undertaken by domestic and international governments on these issues stand to impact the overall competitiveness of the agriculture sector and access to international markets.

How we support this:

We collaborate with all levels of government to develop integrated environmental policy and continue to facilitate the adoption of beneficial management practices that protect or enhance the environment and define and meet climate change, land use, air, and water objectives. Through our work with industry and government partners, we explore environmentally responsive solutions that promote competitiveness and build on opportunities that manage risks, address public concerns, and improve efficiencies. We facilitate and encourage the discovery, dissemination, and adoption of agricultural best practices and innovative research that can improve productivity while protecting Alberta's natural environment.

### Key Highlights and Considerations from 2012-13

- **Energy Efficiency and Sustainability:**
  The completion of the five-year Growing Forward agreement with the federal government saw the delivery of on-farm sustainability programs, including 778 approved and completed projects in the areas of integrated crop management, manure management, energy efficiency, and grazing and winter feeding management. This represents millions of dollars of investment by producers towards improving their environmental performance and efficiencies. Through the On-Farm Energy Management program, 215 energy efficiency projects were completed and funded by Growing Forward. This program shares the cost of investments that improve energy efficiency on Alberta farms and enables producers to conserve energy and reduce carbon emissions, ultimately reducing the environmental footprint of Alberta's agriculture industry. More than $6 million dollars (grants and producer contributions) was invested in energy efficient technologies and practices, which help producers see increased efficiencies and reduced production costs. The return on the investment for producers ranged from two to seven years based on energy savings, which corresponds to several tonnes of $CO_2$ offset each year for adoption of these technologies.

### Additional Results and Ongoing Contributions

Additional results and ongoing contributions of the Ministry toward achieving our goal of environmental stewardship include:

- Continued evaluation, dissemination, and demonstration of energy efficient technologies and practices to facilitate the adoption of beneficial management practices. These practices support Growing Forward Energy projects, which reduce the energy used by the agriculture industry and improve competitiveness. Emerging technologies evaluated include: Light-emitting diode (LED) lighting applications, solar operated lighting, tankless hot water heaters, sub-meters for baselining

energy consumption, and variable frequency drives for improved irrigation efficiencies. We also developed and implemented a Carbon Footprint Calculator related to agriculture production that can be used to analyse a farm's efficiency in terms of energy and losses.

- Continued engagement in Land-Use Framework (LUF) processes as mandated by provincial legislation. In view of the importance of agri-food interests in southern Alberta, we are one of the core ministries tasked with the development of the South Saskatchewan Regional Plan. We continue to work with other ministries to ensure that agricultural perspectives, concerns, inputs, and opportunities are properly reflected in regional plans and other LUF-related policy decisions.
- Continued to support the Alberta Environmentally Sustainable Agriculture (AESA) program to enhance the adoption of environmentally sustainable practices by the agricultural sector and address a broad range of environmental issues of high priority for Alberta's agricultural industry. Since its creation in 1997, the program has been developing and delivering collaborative initiatives for environmentally sustainable growth of Alberta's primary agriculture sector. This helps municipalities and agricultural organizations find practical and effective options to enhance environmental stewardship in agriculture. In consultation with stakeholders, a review of program design was completed, with implementation of improvements planned for 2014.
- Continued to coordinate the Environmental Farm Plan (EFP) program, with an additional 69 EFPs being completed. Delivered through our AESA program partners, the EFP program objectives are focused on sustaining production, managing risks, providing a healthy landscape for the next generation, and maintaining market access. The EFP process helps Alberta's agricultural producers identify and address environmental risks and opportunities in their operations. Industry and stakeholder feedback was gathered to improve delivery of the program to better reflect industry's future needs.
- Continued to work proactively with the livestock industry to recognize that confined feeding operations can affect air quality through emissions of gasses, particulate matter, and volatile organic compounds.
- Continued to coordinate efforts with Agriculture and Agri-Food Canada and the biogas industry to determine biogas potential for feedstocks in Alberta from primary agriculture, food and beverage processing, restaurants, and ethanol production. An inventory of feedstocks in the province will allow biogas developers to source and optimize feedstocks for a given location. Through our combined efforts, we helped determine the nutrient value of biogas digestate for cereal crops, which provides a market opportunity for this by-product in place of chemical fertilizers.
- Provided management of Ministry near-real time meteorological networks. The ongoing quality control of more than 80,000 meteorological observations per day from over 350 stations is used in AFSC's Crop Insurance Programs. Over 10% of the irrigated acres in the province use irrigation scheduling based on meteorological data from the Agro-Climatic Information Service.

### Performance Measure:

2a. Average percentage of improved environmentally sustainable agriculture practices adopted by producers (biennial survey)

### Desired Trend in Target:

An increase in the percentage of improved environmentally sustainable agriculture practices adopted by producers.

## Results:

Year Ending March 31

| Actual 2008-2009 | Actual 2009-2010 | Actual 2010-2011 | Actual 2011-2012 | Last Actual 2012-2013 |
|---|---|---|---|---|
| n/a | n/a | n/a | 55% | n/a |

Source: Agriculture and Rural Development (Environmentally Sustainable Agriculture Tracking Survey)

Note: The results prior to 2011-2012 are not comparable and reported as not applicable because the number of environmental practices tracked under this measure has been revised. In addition, the result for 2012-2013 is not applicable as the survey is completed every second year. The next survey will be completed in fiscal year 2013-2014.

## Discussion of Results:

This measure tracks the level of adoption of eligible environmentally sustainable agriculture practices by primary producers seeking to improve environmental stewardship on their farm operations. The public continues to be increasingly aware of potential environmental issues and effects of crops and livestock production on soil, water, air, and biodiversity and the need for effective management of these resources. The Ministry plays an important role in working with industry and government partners to implement innovative environmentally responsive solutions that enable producers to be environmentally responsible and competitive.

The biennial Environmentally Sustainable Agriculture Tracking survey was completed in the 2011-12 fiscal year. The survey tracks the adoption of 41 key environmentally sustainable agriculture practices by Alberta producers within eight focus areas: manure management, water quality and quantity, wildlife habitat conservation, grazing management, general practices, agriculture waste management, energy and climate change, and soil conservation. The average percentage of adoption for the 41 key environmentally sustainable agriculture practices by producers was 55 per cent. The results of the survey provide a source of information for guiding current and future agri-environmental programming, policies, and regulations.

To help increase producer awareness of environmentally sustainable agriculture practices, the department has undertaken initiatives in: delivering research and programming to increase understanding and adoption of the environmentally sustainable agriculture practices; providing multiple extension resources, activities, and programs delivered addressing those environmentally sustainable agriculture practices; exploring alternative approaches of delivering customized information to producers such as newsletter articles, factsheets, an on-line planning tool, workshops, conferences, and one-on-one support from experts. In addition, the new Growing Forward 2 agreement with the Federal Government will provide funding for four incentive-based programs that will assist producers in adopting environmentally sustainable agriculture practices to improve environmental stewardship on their farming operations.

## GOAL 3: Farmed animal health and welfare, plant health, and safe food products

What this means:

By facilitating excellence throughout the food production and processing system, the food industry can assure the quality and safety of Alberta products and food production practices, thereby improving market access and protecting public health.

Why this is important:

Consumers are not only concerned about where their food is coming from, but also how it is produced, the welfare and treatment of animals, and the impact of production practices on human health. In order to reduce risk and create a competitive advantage in maintaining and expanding markets, Alberta must have an impeccable reputation for excellence in food safety, plant health, and farmed animal health and welfare. The development and application of excellent systems assure the quality and safety of food produced and processed in Alberta and supports Alberta's culture of continuous improvement in farmed animal health and welfare.

How we support this:

We ensure that policies, standards, legislation, and regulations align to support farmed animal health and welfare, plant health, and safe food production. We also contribute to the development and implementation of national and provincial food safety and farmed animal health and welfare strategies and initiatives. We support industry with science-based information that demonstrates the soundness of current practices and encourages industry's adoption of internationally accepted food safety and traceability systems and standards through legislation, regulations, research, education, awareness, and demonstration projects. We collaborate and engage with other orders of government and industry to provide assurance on the effectiveness of industry's food safety system through research, inspections, audits, and ongoing surveillance.

### Key Highlights and Considerations from 2012-13

- **Leadership in Food Safety:**
  Because food safety is a shared responsibility among federal and provincial governments, as well as industry, successful communication and cooperation has a high impact on the effectiveness of our approach at every level. In support of this, we organized and led a national workshop involving industry leaders, researchers, and government officials in order to explore how we can all contribute to reducing risks related to *Escherichia coli (E. coli)* in food. We supported the Canadian Food Inspection Agency by providing laboratory testing during the XL Foods Inc. food safety incident. Additionally, over $5 million in Growing Forward funding was allocated to Alberta processors, producers, and organizations to assist them in improving practices in food safety, animal welfare, and biosecurity in facilities and on farms.

- **Preparedness for Animal Health and Welfare Emergencies:**
  Successful response to an animal disease incursion depends on effective and coordinated efforts from government, industry, civil society, and individuals. Incursions of disease have a devastating effect on industries that rely on export markets and the economy as a whole, so we collaborated with the University of Calgary, the Canadian Food Inspection Agency, and a world leader in disease modelling to complete a project to assess the potential scope of an incursion of foot and mouth disease. Modelling disease outbreaks helps create and test plans developed specifically

to address foreign animal disease outbreaks. We also collaborated with stakeholders to prepare for potentially devastating animal disease incursions and address public health issues such as antimicrobial resistance.

The Growing Forward program was used to fund the planning, purchasing, equipping, and management of five portable livestock handling trailers that will be deployed in emergencies to reduce or prevent animal suffering and protect public safety. These trailers improve the ability of first responders across the province to deal with animal welfare and public safety issues relating to truck and trailer incidents that involve livestock. Having the proper equipment in the hands of properly trained individuals helps to reduce animal suffering and potential injuries to people.

## Additional Results and Ongoing Contributions

Additional results and ongoing contributions of the Ministry toward achieving our goal of farmed animal health and welfare, plant health, and safe food products include:

- Continued to provide leadership to the National Agriculture and Food Traceability System, which aims to develop a national system of standards and regulatory frameworks for Canada. An integrated system across all provinces helps ensure safety and security of the food supply, as well as enhance and maintain access to markets. We have been working with industry and other provinces since 2006 on developing the three components of the system: Individual Identification (identifying each animal distinctly); Premises Identification (identifying everywhere the animal has been); and Movement (integrating the movement of animals into an up-to-date database). New traceability tools used to improve productivity and profitability have been demonstrated through ALMA's work with the Alberta Lamb Producers and the use of Radio Frequency Identification (RFID) tags.
- Continued to assist processors in developing, improving, and implementing food safety systems to meet the requirements of current customers and gain markets by providing extension, resources, training, and other support in alignment with accepted food safety standards. This support to processors complements current food safety regulations and helps identify measures to prevent, eliminate, or reduce hazards during the processing and production of food. Additionally, we continued to provide food safety, animal health, and animal welfare assurance to Albertans through the inspection and auditing of provincially licensed meat facilities.
- Continued assistance to the Canadian Food Inspection Agency (CFIA) in monitoring the prevalence of bovine spongiform encephalopathy (BSE) in Canada to determine the effect of mitigation measures. The BSE Surveillance Program is vital to keeping borders open for trade, gaining access to new international markets, ensuring consumer confidence, and maintaining Canada's "BSE controlled" risk status under the World Organization for Animal Health (OIE).
- Continued risk management efforts in preventing and preparing for animal health emergencies to minimize the risk of a disease outbreak and associated costs to industry and government. Programming includes detailed plans to mobilize regional and provincial resources; emergency carcass disposal planning; assistance to industry with improving their level of emergency planning; and providing education and training to producers and industry partners on how to prevent diseases from ever getting on their premises (biosecurity measures).
- Continued our efforts focused on informing, educating and assisting producers to increase compliance with traceability regulations. Through an extension of a Growing Forward grant to the Canadian Cattle Identification Agency (CCIA), we supported the efforts of mobile field representatives to engage with the cattle industry to increase compliance levels and ensure data and system integrity. Additionally, a Memorandum of Understanding (MOU) was signed with CCIA

aimed at strengthening stakeholder relations and collaboration provincially and nationally, and supporting efforts in traceability system development focused on animal health, food safety, and continued market access for Alberta livestock products.

- Continued our strong partnership with Alberta Pork in crafting a delegation agreement and new traceability legislation for the Alberta swine industry. This builds toward both emergency response capability and continued market access for Alberta's swine producers through the identification of premises and livestock movement reporting along the supply chain.

### Performance Measure:

3a. Percentage of Alberta licensed meat processing facilities that have added a preventative system to their existing food safety system

### Desired Trend in Target:

An increase in the number of Alberta licensed meat processing facilities that meet or exceed provincial meat processing standards.

### Results:

| | | | Year Ending December 31 | |
|---|---|---|---|---|
| Actual 2008 | Actual 2009 | Actual 2010 | Actual 2011 | Last Actual 2012 |
| n/a | n/a | 86% | 88% | **91%** |

Source: Agriculture and Rural Development

Note: The results prior to 2010 were determined using different criteria than what is currently used to calculate reported results. As such, all results prior to 2010 are reported as not applicable.

### Discussion of Results:

This measure tracks the percentage of Alberta licensed meat processing facilities that meet and/or exceed provincial safe food production standards under the *Meat Inspection Act* and Regulation. There are many factors that can influence Alberta licensed meat processing facilities to comply with meat processing standards, including customer expectations, facility operator's buy-in to food safety standards, market drivers, internal competition between facilities, and the overall relationship between the facility and the department.

An appropriate and transparent regulatory environment is essential in maintaining continued excellence in food safety at the meat processing level. The Ministry maintains and enhances public confidence in provincially inspected meat products and meat processing practices at provincially licensed meat processing facilities by obtaining consistency and compliance through inspection, auditing, and enforcement activities under the *Meat Inspection Act* and Meat Inspection Regulation. In addition, the Ministry continues to enhance integrated food safety process controls by: maintaining a food safety surveillance system to validate the safety of meat products processed by provincial licensed abattoirs; facilitating adoption of internationally accepted meat processing safety systems and standards; and delivering information, training, and other programs that enhance food safety awareness and emergency response.

The new Meat Facility Standards implemented by the Ministry in September 2009 provide additional rigour to the existing meat audit procedures in terms of scope and breadth of the meat auditing processes. Benefits accruing to Alberta licensed abattoirs for enhancing food safety systems include protecting Alberta's reputation for producing quality value-added meat products under verifiable food safety standards, and upholding consumer confidence in meat products and good production practices. This program contributes to continued excellence in food safety, as food safety measures

at the processing level are a key component of the food safety continuum. In the spring of 2012, the Ministry commissioned an external review of the provincial meat inspection service in Alberta, with the objective of examining ways of improving the regulatory environment for the provincial slaughter and meat processing industry while maintaining food safety as a priority.

The current result indicates that 91% of provincial licensed meat processors met or exceeded provincial safe food production standards in 2012, which was 8% above the target of 83%. These results are affected by both the number of poultry and red meat abattoirs that were not operating in 2012 but retained their license, and those that operated in early part of 2012 but relinquished their licenses before their scheduled audit.

A total of 119 meat processing facilities were licensed by the Ministry at the beginning of fiscal year 2012. Of this, 108 of these meat processing facilities were audited in 2012 and they all met and/or exceeded provincial safe food production standards. The high level of compliance of provincial safe food production standards among the meat processing facilities that were audited is due to an increased familiarity and understanding of audit requirements by processors, as well as improvements in follow-up procedures for audit deficiencies. The remaining 11 meat facilities were not audited in 2012 because they either relinquished their licences before their scheduled audit or were not operating in 2012 but retained their license.

### Performance Measure:

3b. Number of Alberta food processing facilities participating in the Alberta HACCP Advantage Program

### Desired Trend in Target:

Enhanced food safety practices through an increase in the number of Alberta food processing facilities using the HACCP system.

### Results:

| | | | | Year Ending March 31 |
|---|---|---|---|---|
| Actual 2008-2009 | Actual 2009-2010 | Actual 2010-2011 | Actual 2011-2012 | Last Actual 2012-2013 |
| 104 | 50 | 53 | 34 | 45 |

**Source: Agriculture and Rural Development**

### Discussion of Results:

The Hazard Analysis Critical Control Point, or HACCP, is a voluntary system that identifies, evaluates, and controls hazards that are significant for food safety. This measure tracks the successes of the Ministry in encouraging Alberta food processors to adopt HACCP-based food safety systems and/or improve existing food safety systems. This program contributes to continued excellence in food safety, as food safety measures at the processing level are a key component of the food safety continuum.

The Ministry provides leadership and support for safe food production systems and global market access for Alberta's food processing industry through information, services and legislation. Since 2005, the Ministry has provided the Alberta HACCP Advantage (AHA!) program, a voluntary program that assists food processors to develop, improve and implement food safety systems to meet the requirements of their current customers and gain new customers. The AHA! program is just one of several certifiable programs that processors can choose to implement. Processors that choose to implement a food safety system without seeking funding, or choose to participate in other complementary Ministry programs, are not captured in this measure.

During the past year, Ministry staff partnered with Alberta Health Services to deliver food safety education sessions to food processors across the province. The food safety extension sessions focus on encouraging provincially-regulated food processing facilities to implement appropriate food safety process control systems.

Last actual result indicates that 45 food processors participated in the Alberta HACCP Advantage (AHA!) program in 2012-13, which was 36 per cent above the target of 33. There are many factors that can influence a food processor's decision to participate in the AHA! program, including stories in news media about food processing issues, which have reinforced the need for processors to reduce safety risks and recalls through effective food safety practices. Another factor has been the food processors' positive response to increased promotion of food safety programs through cross-ministry collaboration at conferences and industry association meetings. This has resulted in increased awareness of food safety requirements and increased program participation.

## GOAL 4: A vibrant, resilient and sustainable rural Alberta

What this means:

Building a resilient and sustainable rural Alberta requires policies, programs, and services that advance community capacity, infrastructure, economic opportunities, innovation, and rural stewardship.

Why this is important:

A strong rural Alberta contributes to the province's prosperity. By increasing human and business capacity, building networks, addressing challenges, and taking advantage of opportunities, rural Alberta can realize increased economic diversification, self-reliance, and an improved quality of life.

How we support this:

We collaborate with other ministries and agricultural organizations to coordinate and integrate policies and programs that encourage local innovation, creativity, and economic development in rural Alberta. We actively continue to build rural Alberta's leadership base by working with youth and rural stakeholders and partnering with educational institutions to facilitate innovative learning and skill development opportunities, as well as advance rural development initiatives. We assist with rural business diversification and facilitate the development of community infrastructure. We administer programs to reduce the costs of installing natural gas and farm electric utility services and reduce the cost of heating fuels for rural Albertans living in remote regions of the province. We also work with industry and rural Alberta to promote and enhance farm safety in Alberta.

### Key Highlights and Considerations from 2012-13

- **Grant Program Transition:**
  In an effort to better support rural development infrastructure needs and allow government to focus on an assurance function, the Ministry began transitioning the delivery of the Rural Electric and Rural Gas grant programs to the umbrella federations that represent these cooperatives. This transition does not include a decrease in funding, but rather a change in the delivery mechanisms of the programs.

- **Final Mile Rural Connectivity Initiative:**
  We continued our work with municipalities and industry to make progress on this commitment. In partnership with Service Alberta, the Final Mile Rural Connectivity Initiative helps close existing service gaps and ensure reliable, high-speed internet availability to at least 98 per cent of Albertans. One element of this initiative is the $5 million Final Mile Rural Community Program, through which 23 community-led projects have been approved to address broadband service gaps and extend coverage in their respective rural communities. Eligible costs under the program include high-speed Internet infrastructure costs such as towers, fibre optic cable, wireless equipment, installation costs, and radio license fees.

## Additional Results and Ongoing Contributions

Additional results and ongoing contributions of the Ministry toward achieving our goal of a vibrant, resilient and sustainable rural Alberta include:

- Provided support for Rural Alberta's Development Fund (RADF), which contributes to the growth, prosperity, and quality of life in Alberta. Albertans investing in their own communities will lead to new businesses, higher employment, and strengthened regional economies.
- Continued to provide support for major fairs and exhibitions across the province with capital development and program initiatives, including the Calgary Stampede, Edmonton Northlands, and other regional exhibitions and fairs. This support helps increase exposure and connectedness of Alberta's diverse farm communities.
- Continued to provide contributions to Alberta's agricultural societies, which support agricultural programs, services, and facilities that enhance the quality of life in agricultural and rural communities.
- Provided financial lending support (via AFSC) for the development and expansion of agriculture, agri-business value-added enterprises, and commercial operations in Alberta. Through the Alberta Farm Loan Program (AFLP), Value-added and Agribusiness Program (VAAP), and other direct loans, various farm and commercial operations receive reasonable access to capital in support of diverse agricultural and rural business opportunities.

### Performance Measure:

4a. Total investment leveraged in rural businesses facilitated through AFSC lending services ($ million)

### Target:

Increased investment in rural businesses through Agriculture Financial Services Corporation lending services.

### Results:

Year Ending March 31

| Actual 2008-2009 | Actual 2009-2010 | Actual 2010-2011 | Actual 2011-2012 | Last Actual 2012-2013 |
|---|---|---|---|---|
| 399 | 565 | 640 | 658 | **663** |

Source: Agriculture Financial Services Corporation (AFSC)

Note: Values reported for investments are a proxy measure based on loans approved. Not all approved loans are disbursed, and in some cases, there may be timing differences between approval and disbursement of loans

### Discussion of Results:

Agriculture Financial Services Corporation (AFSC) lending services ensure that primary agriculture producers and rural business enterprises can access capital necessary to foster and grow the rural economy in Alberta. AFSC also provides and facilitates sourcing of financing for companies in the agri-food and value-added industry, as well as the small business sector, with an emphasis on rural Alberta. Without access to capital, rural businesses would not be provided an opportunity to prosper, or continue to sustain a vibrant agriculture and commercial business sector in many rural communities in Alberta. As a mainstay in rural Alberta, AFSC's programs continue to exist and provide capital access regardless of the economic cycles that often create difficulties in accessing capital for businesses, especially in rural Alberta.

This measure highlights the successes of AFSC's direct contribution, partnership and collaboration with other stakeholders in providing funding to rural businesses for farming and/or commercial activities in rural Alberta. Total dollar investment in agri-business and farm loans is a proxy value for investment based on loans approved. Dollar investment is any fund (i.e., debt, equity, investment) that would be used to support the growth of farming and commercial activities.

The actual result of $663 million is 15 per cent higher than the forecasted target of $575 million. External factors influencing the result could be the continued increase in land values, which in turn increases the size of the loans. In addition, there was more inter-generational lending as a result of producers scaling back and transitioning the next generation to take over the business. AFSC continues to support the growth and development of the Alberta economy by providing loans to producers, agribusiness, and commercial ventures at a time when many financial institutions continue to restrict lending to certain industries.

AFSC lending services are demand-driven by the agriculture and rural business community. The 2012-13 result represents the fifth straight year of growth. While it was expected that demand would decrease in 2012-13 as the economic growth improved in Alberta, the demand for capital by agriculture producers remained very strong and well above initial targets, resulting in demand above expectations.

### Performance Measure:

4b. Percentage of Ministry-supported, agricultural-related community activities that focus on leadership development

### Target:

Increased leadership development capacity in rural communities though Ministry-supported agricultural-related community activities.

### Results:

Year Ending March 31

| Actual 2008-2009 | Actual 2009-2010 | Actual 2010-2011 | Actual 2011-2012 | Last Actual 2012-2013 |
|---|---|---|---|---|
| 33% | 31% | 33% | 29% | **35%** |

**Source: Agriculture and Rural Development**

### Discussion of Results:

The Ministry has identified leadership development as a key contributor in achieving a vibrant, resilient and sustainable rural Alberta. Continued support for leadership development activities helps nurture those who wish to contribute to their communities.

Leadership development activities encompass learning opportunities for both youth and adults in rural communities. The activities provided under a variety of settings enhance the capacity of rural communities to nurture, retain and enhance critical skills in management, public speaking, economic development, and rural stewardship. The breadth and diversity of agricultural-related community activities contribute to a vibrant, resilient and sustainable rural Alberta. This measure highlights the Ministry's success in developing leadership capacity in rural communities, including the provision of diverse initiatives under Ministry agricultural community programming.

In 2012-13, the Ministry provided funding for 3,277 agricultural-related community activities, of which nearly 35 per cent, or 1,150 activities, focused on leadership development. This result is four per cent higher than the forecasted target of 31 per cent. The remaining 2,127 activities focused on agri-business development, agriculture education, community improvement, fairs, and livestock show activities. Agricultural-related community activities contribute to improvements in agriculture, rural development, and the quality of life in rural Alberta.

A major factor behind the increase in the reported result was an increase in program grants that targeted leadership development. In early 2012, the Ministry provided an additional $700,000 in funding dedicated to leadership development and farm safety, which built upon the Ministry's commitment to support the development of the next generation of leaders in rural Alberta.

### Performance Measure:

4c. Percentage of rural youth and adults participating in Ministry-supported programs that report effective learning from those programs

### Target:

Maintain or increase the level of satisfaction from rural youth and adults participating in Ministry-supported programs.

### Results:

| | | | Year Ending March 31 | |
|---|---|---|---|---|
| Actual 2008-2009 | Actual 2009-2010 | Actual 2010-2011 | Actual 2011-2012 | Last Actual 2012-2013 |
| n/a | n/a | 95% | 95% | **92%** |

**Source: Agriculture and Rural Development**

**Note: The results for 2010-2011 and 2011-2012 were determined using a different sampling technique than that used to calculate the results for prior years. The sampling process has been changed to a rotating sampling method, a procedure in which a proportion of the initial survey sample is dropped from each subsequent evaluation wave and replaced with a new sample of equal size. All results from prior years are reported as not applicable.**

### Discussion of Results:

This measure supports the Ministry's goal of sustainable rural Alberta by providing learning opportunities under 4-H programming for both youth and adults in rural communities. Ministry-supported 4-H programming includes: regional and provincial livestock workshops; judging clinics and competitions; leadership and personal development conferences and seminars; communication and presentation workshops; as well as technical skill development programs and opportunities. These programs enhance the capacity of rural communities to nurture, retain and enhance critical skills with respect to leadership, managerial skills, public speaking, economic development and environmental sustainability. These skills are important in supporting vibrant and sustainable rural communities.

This performance measure provides a continuous measurement tool for assessing the effectiveness of learning opportunities provided for rural youth and adults under Ministry-supported programs through an annual survey. This measure was selected to measure behavioural changes in rural youth and adults participating in 4-H programs/activities. The 2012-13 result of 92 per cent is 1 per cent higher than the forecasted target of 91 per cent.

Since the survey result was reported in April 2012, Ministry staff have completed the 4-H entrepreneur on-line resource to compliment business skill development amongst youth and adults in rural communities. Ministry staff supported 86 learning opportunities for 6,093 youth and 2,061 adults involved in 369 clubs, and provided technical resources to youth and adults involved in over 30 different project areas. Improved on-line resources would help provide rural youth and adults increased access to relevant and innovative resources that meet industry standards in all areas of rural Alberta.

# Appendix A: Organizational Descriptions

The Ministry is comprised of the:

- Department of Agriculture and Rural Development
- Agriculture Financial Services Corporation
- Alberta Livestock and Meat Agency Ltd.
- Office of the Farmers' Advocate of Alberta
- Alberta Grains Council
- Agricultural Products Marketing Council
- Irrigation Council

## Department of Agriculture and Rural Development:

The Department of Agriculture and Rural Development operates in three key sectors: Food Safety and Technology, Industry and Rural Development, and Policy and Environment.

### Food Safety and Technology:

The Food Safety and Technology Sector focuses on safe food production systems and animal health programs that protect public health and support market access for Alberta's agriculture and food industry through: facilitating the adoption of internationally-accepted food safety systems and standards; maintaining a surveillance system for food safety and animal health; minimizing the impact of animal diseases on public health; providing essential non-routine animal disease investigation services; and, planning for and responding to food safety and animal health emergencies. The sector also validates the safe production of meat and meat products though provincially-licensed meat facilities, as well as ensuring compliance with assigned legislation through investigation and enforcement activities. The Office of the Chief Provincial Veterinarian (OCPV) is part of the sector and advocates the use of current scientific principles and information in the development of animal health legislation and disease control programs. The OCPV liaises with international, federal and other provincial governments, as well as industry, on food and animal health issues.

In addition, the sector administers and coordinates the development of legislation that provides the framework for the establishment and management of Agricultural Boards and Commissions, rural gas, electric and water associations and other regulatory tools that support rural communities. To aid the growth and sustainability of rural communities, the sector provides financial support for the development of rural gas and electric infrastructure and facilitates the delivery of governance and leadership development programs. The sector is also responsible for working in partnership with program areas to optimize program delivery, contribute to business innovation and increase efficiencies by enabling modern technologies and through information management, as well as information sharing best practices. The sector provides the secure, robust and reliable technology infrastructure necessary to support the Ministry's requirements for electronic service delivery and is responsible for the planning, development, organization, evaluation and delivery of information services including print and electronic publishing.

### Industry and Rural Development:

The Industry and Rural Development Sector supports the agriculture industry with a focus on business and technology development, and product and process testing in order to develop and support a competitive and self-reliant industry through technology transfer and extension

activities. The sector provides relevant market information, opportunity identification and networking opportunities with the goal of positioning Alberta as a preferred supplier to support targeted export growth for Alberta agriculture products and services. Through a focus on the value-added processing of agriculture commodities through laboratory development, applied research and pilot plant scale-up, the sector facilitates development of new products, and supports the development of new companies and the attraction of new food processors to Alberta. In order to successfully grow the agriculture industry in Alberta, it is necessary to create and promote Alberta as a stable, credible and profitable location for agricultural and agri-food investors, as well as support the increase of agricultural exports and business services within Alberta's agriculture and agri-food industry. The sector is dedicated to establishing an overall strategic framework and implementing strategies necessary to generate and attract international and domestic investment to the agriculture sector in the province and advocating the growth of Alberta agriculture and agri-food export opportunities.

The sector also builds and implements food chain traceability initiatives, links these traceability systems to the national and provincial emergency response systems, and provides policy advice on Alberta and national traceability initiatives and issues. In addition, the sector assures the effective delivery of agriculture educational training, leadership and grant programs, as well as front-line client contact services for industry clients through the Ag-Info Centre, field offices and a variety of extension activities.

**Policy and Environment:**

The Policy and Environment Sector continues to address the growth of agricultural trade through monitoring and advancing international agricultural policy and agreements. It also ensures that Alberta's policy and strategic frameworks enable business opportunities and innovation and strengthen rural communities through government-wide leadership of rural development policy. Through a focus on industry, social and economic trend analysis, strategic planning, policy development, market and competitiveness intelligence and rural business and infrastructure development, the Policy and Environment Sector advances the competitive position of Alberta's agriculture industry. The Sector also focuses on the provision of statistical information, data on costs and returns, as well as market analysis to support sound decision-making by government and industry.

As public awareness drives the need for the agriculture industry to earn and demonstrate a social license to operate, development and implementation of environmental stewardship best practices is becoming increasingly important. By working collaboratively with industry and rural Alberta, the Policy and Environment Sector is building industry capacity and environmental opportunities that are outcome-focused, reportable and verifiable. This also involves working with Alberta's irrigation industry in addition to agricultural producers to ensure that good quality surface and ground water supplies meet current and future agricultural, municipal, wildlife and recreational needs. This work also ensures that management practices meet acceptable water quality guidelines and that management systems assist livestock and crop producers to deal with changing climate conditions.

**Agriculture Financial Services Corporation:**

The Agriculture Financial Services Corporation (AFSC) provides a wide variety of risk management products and financial services to fit the business needs of farmers, the agriculture industry and small businesses in Alberta.

The corporation provides insurance products to mitigate risks related to both livestock and crop production, including hay and pasture, and offers waterfowl and wildlife damage compensation to help Alberta farmers protect against production losses on their farms. AFSC delivers the federal/provincial AgriStability Program, a whole-farm program that provides compensation for decline in

farm margin relative to historical margin for eligible producers, regardless of the commodities they produce. The corporation offers agriculture financial services such as farm loans and guarantees for new and expanding farm businesses and financing for those facing disastrous reductions in farm production or income. AFSC also provides and facilitates sourcing of financing for companies in the agri-food and value-added industry, as well as the small business sector, with an emphasis on rural Alberta.

**Alberta Livestock and Meat Agency Ltd.:**
The Alberta Livestock and Meat Agency Ltd. (ALMA) acts as a catalyst to help transition Alberta's livestock industry into competitiveness and sustainability and ensures effective implementation of programs and initiatives directed at Alberta's livestock industry.

ALMA provides ideas, information and investment opportunities to the livestock industry and advises on public policy related to regulations, legislation, programs and issues of importance to the livestock and meat sectors. As well, ALMA identifies solutions and engages the industry to foster collaboration and alignment between industry and government priorities. ALMA's programs stimulate innovation and encourage the adoption of best practices, develop new technologies and state-of-the-art processes. The agency's priority areas are market access, streamlining the regulatory burden, synergistic growth, domestic positioning and information flow.

**Office of the Farmers' Advocate of Alberta:**
The Office of the Farmers' Advocate of Alberta works closely with rural Alberta and provides the Minister with information on issues concerning rural Albertans. The agency exists so that rural Albertans can make informed risk management decisions, operate in a balanced legal environment, and have an outlet to settle disagreements. The Office of the Farmers' Advocate of Alberta also provides advice to rural Albertans, works with the Ministry to ensure fair process for rural Albertans, and informs and explains issues regarding industry policies and procedures.

**Alberta Grains Council:**
The Alberta Grains Council provides strategic and tactical advice to the Minister and appropriate groups who are able to impact the long-term profitability and sustainability of the grains and oilseeds industry. The Council also provides advice to the Minister on other matters pertaining to the grain industry (such as transportation issues and investment needs in grains research and innovation), conducts ongoing examination of all facets of the industry, and maintains liaison with other governments, groups, or boards within and outside Alberta.

**Agricultural Products Marketing Council:**
The Agricultural Products Marketing Council advises the Minister on matters related to the establishment, operation and management of the boards and commissions established under the *Marketing of Agricultural Products Act*. The Council also provides strategic support to boards and commissions on board governance, leadership development, strategic and business planning, and regulatory and policy matters.

**Irrigation Council:**
The Irrigation Council supports the Government of Alberta and Irrigation Districts by providing recommendations and advice, regulatory administration and strategic funding decisions that facilitate the responsible allocation, management and use of water delivered through irrigation infrastructure. The Council is made up of five public members and two government representatives appointed by the Minister of Agriculture and Rural Development.

# Appendix B: Performance Measure Methodologies

### Performance Measure:

1a. Number of value-added products developed and successfully introduced into market with assistance from Agriculture and Rural Development

### Methodology:

The result for this measure is the total number of written confirmations provided by industry clients for products that were developed with assistance from the Ministry and successfully introduced to market in fiscal year 2012-2013. Value-added products include value-added food, beverage and bio-industrial products.

The Ministry tracks all new value-added products of industry clients that are developed with some assistance from its staff. A product development activity encompasses projects where Ministry staff assisted industry clients in one or more of the following areas: product formulation, shelf-life, packaging, sensory evaluation, marketing and commercialization.

At year-end, each industry client is asked to provide a written confirmation to verify the number of new products that were developed with the assistance from the Ministry and successfully introduced to market. "Introduced to market" refers to a product that has obtained a listing at retail or food service, domestically or internationally. The term also includes products that have been sold as ingredients for further manufacturing. The number of new products confirmed by written confirmations from industry clients are aggregated and reported for this measure. The data is collated from program areas within the Ministry that are engaged in project development and commercialization.

### Performance Measure:

1b. Research and development investment by collaborators leveraged through ministry resources ($ million)

### Methodology:

The result for this measure is the sum of expended dollars from outside sources leveraged through Ministry investment in research and development in four priority areas: value-added processing, livestock development, crop diversification and environmental stewardship. The outside sources or collaborators include industry organizations, private companies, universities, government departments and agencies.

Research and development is creative work undertaken on a systematic basis in order to increase the stock of scientific and technical knowledge and to use this knowledge in new applications. The central characteristic of research and development is an appreciable element of novelty and it involves scientific investigations resulting in new knowledge, products or processes.

The reported result was collated from data supplied by Ministry program areas that are involved in research and development activities. The questionnaire collects information on a division's fiscal year research and development expenditures and expended amounts received from outside sources. An expended amount is an aggregate amount of revenue that has been used to offset part or all of project expenses. The performance result for this measure is the sum of expended amounts of outside funds.

Data on in-kind contributions from collaborators are not included in the calculation of this measure. As a result, the performance result likely understates the true amount of leveraged resources invested by collaborators. Measures of in-kind contributions are less reliable, as they are based on estimates that can be subjective in nature. The data is collated from program areas within the Ministry that are engaged in research and development activities.

### Performance Measure:

1c. Percentage of eligible seeded acres for major crop categories insured under Production Insurance/AgriInsurance (Annual and Perennial crops):

### Methodology:

#### Annual Crops

The total eligible seeded acres for the annual crops insured under the Crop Insurance / AgriInsurance program is divided by the corresponding total seeded acres for annual crops as reported in Statistics Canada's November 2012 Field Crop Reporting Series. The result is then expressed as a percentage.

Annual crops refer to those that are seeded every year. The annual crops included in this measure are wheat (winter wheat; spring wheat; durum wheat), oats, barley, fall rye, mixed grain, flaxseed, canola, corn for grain, dry peas, triticale, dry coloured beans, lentils, mustard seed, chick peas, sugar beets, and fodder corn.

Estimate for land (in acres) seeded to annual crops in Alberta is taken from Statistics Canada's November 2012 Field Crop Reporting Series (released on December 5, 2012). This Statistics Canada publication also provides a detailed methodology to the field crop data. The November estimate provides the most recent information available on seeded acreage in Alberta.

The corresponding eligible seeded acres of annual crops insured under the Crop Insurance / AgriInsurance program is supplied by Agriculture Financial Services Corporation.

#### Perennial Crops

The total eligible seeded acres for the perennial crops insured under the Crop Insurance / AgriInsurance program is divided by the corresponding total for seeded and native pastures (Census of Agriculture 2011, Statistics Canada) and tame hay pasture (November 2012 Field Crop Reporting Series, Statistics Canada). The result is then expressed as a percentage.

Perennial crops refer to crops that do not need to be seeded every year and last for several years.

Perennial crops are made up of seeded pasture, native/natural pasture, and tame hay.

The corresponding eligible acres of perennial crops insured under the Crop Insurance / AgriInsurance program is obtained from Agriculture Financial Services Corporation.

The Census of Agriculture is collected every five years, so acres may change during that time.

**Performance Measure:**
2a. Average percentage of improved environmentally sustainable agriculture practices adopted by producers (biennial survey)

**Methodology:**
The result for this measure is derived from 41 Environmentally Sustainable Agriculture (ESA) practices that could be used to address soil conservation, water management, wildlife habitat conservation, energy management, climate change adaptation, agricultural waste management, and grazing and manure management.

An eligible ESA practice (or group) for the base calculation is based on farm type, farm site characteristics and operation practices. The percentage of eligible environmentally sustainable agricultural practices adopted by each respondent is multiplied by a weighting factor to generate a weighted adoption score for each respondent. The result of this measure is the average weighted adoption score of all respondents expressed as a percentage.

This survey assesses adoption of ESA practices. The target population for this survey is based on a list of commercial farmers in Alberta maintained by Ipsos Reid Corporation. The random and representative sample size was 500, providing a margin of error in provincial results of ± 4.4 per cent at the 95 per cent confidence level. The response rate was 11.5 per cent. Additional information can be found in Agriculture and Rural Development's 2012 Environmentally Sustainable Agriculture Tracking Survey.

Data limitations include producers that are not included in Ipsos Reid Corporation's database (the source of the survey list), non-contactable subscribers (due to privacy legislation compliance), unreachable sample (due to wrong telephone numbers, answering machine, busy, no answer, etc.) and non-response, and disqualification due to failure to answer a required screening question. The source data for this measure is Agriculture and Rural Development's 2012 Environmentally Sustainable Agriculture Tracking Survey.

**Performance Measure:**
3a. Percentage of Alberta licensed meat processing facilities that have added a preventative system to their existing food safety system

**Methodology:**
The result for this measure is derived by dividing the number of Alberta-licensed meat processing facilities that have implemented appropriate food safety process control systems as of December 31, 2012 by the total number of Alberta-licensed meat processing facilities as of January 9, 2012.

All meat processing facilities (poultry and red meat abattoirs) licensed by the Ministry receive an annual Meat Facility Standards (MFS) audit, once per calendar year as part of the Meat Safety Audit Program. This audit is a full systems audit against the entire MFS. The full system audit is used to determine if a meat processing facility has added a preventative system to their existing food safety system. For the purpose of this measure, a preventative system is defined as compliance with MFS as determined by a scored full annual audit.

Only full system audits are reported under this measure. Audit findings are scored and recorded in the MFS Annual Audit Report. Each abattoir receives a Level 1-6 rating with Levels 1-3 receiving a certificate (Gold, Silver, or Bronze) indicating that they have added a preventative system to their existing system.

Meat processing facilities that either relinquished their licenses before their scheduled audit date or were not operating but retained their license are included in the base figure total number of Alberta-licensed meat processing facilities as of January 9, 2012. The findings of these meat processing facilities can have significant impact on the reported result. The data for this measure is collated from the Ministry's Meat Safety Audit Program.

### Performance Measure:

3b. Number of Alberta food processing facilities participating in the Alberta HACCP Advantage (AHA!) Program

### Methodology:

This performance measure reports the total number of Alberta's provincially-licensed food processing plants that implemented appropriate food safety process control systems in fiscal year 2012-13, as reported under the AHA! program.

This measure tracks the success of the Ministry in encouraging Alberta food processors to adopt HACCP-based food safety systems and/or improve existing food safety systems. HACCP is the acronym for Hazard Analysis Critical Control Point. HACCP systems provide a systematic and preventative approach for the identification and control of food safety hazards. HACCP is an internationally recognized, science-based food safety system based on preventing, eliminating and reducing hazards.

Food processors that participate in the AHA! program are considered the baseline/starting point that incremental improvements to activities listed in the work plan can be measured against. Each work plan is then validated by Ministry Food Safety Specialists. The work plan validation confirms that the completion of the activities listed in the work plan will result in an incremental improvement in food safety in the processing plant. Food processers then implement the activities documented on their work plan and subsequently validated by Ministry Food Safety Specialists through on-site closing assessments. Incremental improvements to a processing facility's food safety system are assessed by comparing the results of a closing assessment to a validated work plan. Food processing facilities that are able to demonstrate an incremental improvement to their food safety systems are considered to have participated in the Alberta HACCP Advantage program and are included in the result for this measure. The data is collated from the Ministry's AHA! Program.

### Performance Measure:

4a. Total investment leveraged in rural businesses facilitated through AFSC lending services ($ million)

### Methodology:

Farms and commercial business investments in rural areas (all sources are included whether it is direct from AFSC, other sources of debt, business owner's equity or investment by a third party) are added and reported as total dollar investment. This amount excludes all loans that were approved in fiscal year 2012-13 and subsequently cancelled or withdrawn on or before March 31, 2013.

The measure highlights the successes of AFSC's direct contribution, partnership and collaboration with other stakeholders in providing funding to rural businesses for farming and/or commercial activities located outside Edmonton and Calgary.

Dollar investment is any fund (i.e., debt, equity, investment) that would be used to support the growth of farming and commercial activities. Total leveraged investment is a proxy for the total dollar investment as a result of AFSC's involvement with the facilitation of capital investment in agribusiness

and farm loans through its lending products, services and partnerships. Access to loans is critical in developing and expanding rural businesses, which positively contribute to strengthening rural communities.

Total dollar investment in rural businesses is a proxy value for investment based on loans approved. Values reported are affected by timing differences between approval and disbursement of loans approved. As well, not all approved loans are disbursed. The data is collated from AFSC's lending activities.

### Performance Measure:

4b. Percentage of ministry-supported, agricultural-related community activities that focus on leadership development

### Methodology:

The total of Ministry-supported leadership development activities is divided by the total number of Ministry-supported agricultural-related community activities and then expressed as a percentage.

This measure focuses on leadership capacity in rural communities, including the provision of diverse initiatives under Ministry agricultural community programming. The breadth and diversity of agricultural-related community activities held at various events throughout the year enhance the capacity of rural communities to nurture, retain and enhance critical skills in leadership.

Leadership development activities encompass learning opportunities for both youth and adults in rural communities that nurture and improve skill sets needed to strengthen rural communities, including critical skills in management, public speaking, economic development and environmental sustainability. These skills are important in supporting vibrant and sustainable rural communities.

Ministry-supported activities include educational workshops, sessions and rural community-initiated projects that focus on leadership development, agriculture education and agriculture-related activities such as livestock shows. Activities held at Ministry-supported events fall under three program areas: Agricultural Society Program, 4-H Program and Agricultural Initiatives Programs. The activities included in the measure address the Ministry's five priority areas:

- **Agriculture-related activities** — refer to activities such as rodeos, fairs and livestock shows.
- **Agri-business development** — includes any activities that promote agricultural business development and the development of the agriculture industry.
- **Agriculture education and skill development** — includes programs or projects that foster awareness of agriculture or improve/develop skills within the community.
- **Leadership development** — includes training for volunteer staff, providing funding for conferences, workshops, or seminars, and sponsoring youth leadership development.
- **Community improvements** — includes any capital funding for infrastructure development, renovations, repairs and maintenance, and operating costs of facilities, as well as all capital projects from the Agricultural Initiatives Program grant program.

Data for this measure is collated from three program areas of the Ministry: Agricultural Society Program, 4-H Program, and Agricultural Initiatives Program.

### Performance Measure:

4c. Percentage of rural youth and adults participating in ministry-supported programs that report effective learning from those programs

### Methodology:

The data for this measure is obtained through the use of written evaluations from a rotating sample of eight random and representative Ministry-supported programs. Fifty per cent of the programs evaluated in the prior fiscal year (2011-12) were replaced with a new sample of equal size in the current fiscal year (2012-13). The complete set of programs in the 2011-12 survey sample is thus replaced every two years, ensuring that 50 per cent of the programs are common from year to year.

The target audience and individual program objectives determine the type of questions that are selected from a standardized menu. For each question, the respondent may choose "Yes" to indicate a positive change (effective learning) or "No" to indicate no positive change. Questions that are not answered or have multiple answers selected are coded "No Response" and excluded from the analysis.

To assess effective learning from Ministry-supported programs, respondents are asked questions on knowledge learned, attitudes affected in a positive way, skills acquired, and aspirations developed through their participation in those programs. The aggregate weighted percentage of respondents who reported effective learning from Ministry-supported programs is calculated and reported.

A total of 908 rural youth and adults were surveyed. Results are reliable within ± 5.6 per cent at the 95 per cent confidence level. The response rate was 86 per cent. The data is collated by the 4-H programs and Agriculture and Rural Development.

# MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

## CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2013


Independent Auditor's Report

Consolidated Statement of Operations

Consolidated Statement of Financial Position

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

Consolidated Schedule of Expenses – Directly Incurred Detailed by Object

Consolidated Schedule of Loans Receivable

Consolidated Schedule of Investments

Consolidated Schedule of Tangible Capital Assets

Consolidated Schedule of Borrowing from the Government of Alberta

Consolidated Schedule of Related Party Transactions

Consolidated Schedule of Allocated Costs

AUDITOR GENERAL *Alberta*

# Independent Auditor's Report

To the Members of the Legislative Assembly

## Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Ministry of Agriculture and Rural Development, which comprise the consolidated statement of financial position as at March 31, 2013, and the consolidated statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Agriculture and Rural Development as at March 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]
Auditor General

June 5, 2013
Edmonton, Alberta

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2013

| | 2013 Revised Budget | 2013 Actual | 2012 Actual |
|---|---|---|---|
| | | (in thousands) | |
| **Revenues** | | | |
| Government Transfers | | | |
| Government of Alberta Grants | $ - | $ 513 | $ 1,809 |
| Federal Government Grants | 315,208 | 277,512 | 277,541 |
| Investment Income | 130,229 | 111,376 | 108,435 |
| Premiums, Fees and Licenses | 289,486 | 339,860 | 300,267 |
| Other Revenue | 9,312 | 10,201 | 12,776 |
| Ministry Revenue | **744,235** | **739,462** | **700,828** |
| **Expenses - Directly Incurred (Note 2(c) and Schedule 8)** | | | |
| **Program (Schedule 1)** | | | |
| Ministry Support Services | 17,335 | 17,241 | 14,698 |
| Agriculture Income Support | 226,288 | 112,142 | 123,274 |
| Lending | 39,782 | 37,268 | 32,522 |
| Insurance | 429,831 | 711,089 | 414,072 |
| Policy and Environment | 67,974 | 65,205 | 71,832 |
| Rural and Regulatory Services | 19,555 | 24,782 | 19,824 |
| Industry Development and Food Safety | 133,392 | 128,293 | 174,663 |
| Livestock and Meat Strategy | 39,088 | 36,672 | 37,918 |
| Farm Fuel Distribution Allowance | 28,500 | 35,223 | 31,472 |
| Program Expense | **1,001,745** | **1,167,915** | **920,275** |
| Other | | | |
| Debt Servicing Costs | 75,462 | 66,719 | 57,722 |
| | 75,462 | 66,719 | 57,722 |
| Ministry Expense | **1,077,207** | **1,234,634** | **977,997** |
| **Net Operating Results** | **$ (332,972)** | **$ (495,172)** | **$ (277,169)** |

*The accompanying notes and schedules are part of these consolidated financial statements.*

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2013

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| **Assets** | | |
| Cash | $ 266,086 | $ 292,019 |
| Accounts Receivable | 13,087 | 15,358 |
| Due from Government of Canada | 175,128 | 199,308 |
| Loans Receivable (Schedule 3) | 1,777,383 | 1,601,352 |
| Investments (Schedule 4) | 1,119,771 | 1,084,846 |
| Tangible Capital Assets (Schedule 5) | 77,802 | 81,348 |
| | **$ 3,429,257** | **$ 3,274,231** |
| **Liabilities** | | |
| Accounts Payable and Accrued Liabilities | $ 47,483 | $ 44,807 |
| Indemnities Payable | 202,743 | 189,912 |
| Deferred Revenue (Note 3) | 35,293 | 22,003 |
| Borrowing from Government of Alberta (Schedule 6) | 1,808,219 | 1,683,078 |
| | **2,093,738** | **1,939,800** |
| **Net Assets** | | |
| Net Assets at Beginning of Year | 1,334,431 | 1,050,325 |
| Adjustment to Opening Net Assets | (15,013) | - |
| Net Operating Results | (495,172) | (277,169) |
| Net Financing Provided from General Revenues | 511,273 | 561,275 |
| Net Assets at End of Year | 1,335,519 | 1,334,431 |
| | **$ 3,429,257** | **$ 3,274,231** |

Contractual obligations and contingent liabilities (Notes 5 and 6)

*The accompanying notes and schedules are part of these consolidated financial statements.*

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2013

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| **Operating Transactions** | | |
| Net Operating Results | $ (495,172) | $ (277,169) |
| Non-cash items included in Net Operating Results | 26,851 | 23,593 |
| Net Change in Operating Assets and Liabilities | 41,340 | (112,155) |
| Cash Applied to Operating Transactions | **(426,981)** | **(365,731)** |
| **Capital Transactions** | | |
| Acquisition of Tangible Capital Assets | (12,086) | (9,368) |
| Proceeds on Disposal of Tangible Capital Assets | 67 | 144 |
| Cash Applied to Capital Transactions | **(12,019)** | **(9,224)** |
| **Investing Transactions** | | |
| Proceeds from Repayments of Loans Receivable, Advances and Sale of Properties | 316,571 | 242,117 |
| Loan and Advance Disbursements | (502,915) | (451,411) |
| Purchase of Investments | (524,675) | (750,631) |
| Proceeds on Disposal of Investments | 483,866 | 367,265 |
| Cash Applied to Investing Transactions | **(227,153)** | **(592,660)** |
| **Financing Transactions** | | |
| Borrowing from the Government of Alberta | 355,000 | 775,721 |
| Repayment of Borrowing from the Government of Alberta | (226,053) | (464,425) |
| Net Financing Provided from General Revenues | 511,273 | 561,275 |
| Cash Provided by Financing Transactions | **640,220** | **872,571** |
| **Decrease in Cash** | **(25,933)** | **(95,044)** |
| **Cash at Beginning of Year** | **292,019** | **387,063** |
| **Cash at End of Year** | **$ 266,086** | **$ 292,019** |

*The accompanying notes and schedules are part of these consolidated financial statements.*

## Notes to the Consolidated Financial Statements for the Year Ended March 31, 2013

### Note 1 Authority and Purpose

The Minister of Agriculture and Rural Development has been designated as responsible for various Acts by the *Government Organization Act* and its regulations. The purpose of the ministry is to enable the growth of a globally competitive, sustainable agriculture and food industry through essential policy, legislation, information and services in partnership with vibrant rural communities.

### Note 2 Summary of Significant Accounting Policies and Reporting Practices

These consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

#### (a) Reporting Entity

The Minister of Agriculture and Rural Development administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Agriculture and Rural Development and constitute the reporting entity.

| Organization | Authority |
|---|---|
| Department of Agriculture and Rural Development (the Department) | *Government Organization Act* |
| Agriculture Financial Services Corporation (the Corporation) | *Agriculture Financial Services Act* |
| The Alberta Livestock and Meat Agency Ltd. (the Agency) | *Alberta Business Corporations Act* |

The financial statements for the individual entities provide more detailed information about the operations of each entity.

#### (b) Method of Consolidation

The accounts of the Department, regulated funds and provincial agencies are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Revenue and expense transactions, investing and financing transactions, and related asset and liability accounts between entities within the ministry have been eliminated.

#### (c) Basis of Financial Reporting

**Revenue Accounting Policy** - All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year-end is recorded as deferred revenue. Interest revenue on loans receivable is recognized as earned unless the ultimate collection of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized. An impaired loan is a loan in which there is a risk of loss for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

Premiums from insured persons, including federal government contributions for crop insurance, are recognized as income when invoiced to producers.

Funds collected under various agreements are restricted contributions subject to externally imposed conditions that specify the purpose for which the funds are to be used. Restricted contributions are recognized as revenue in the period in which the related expenses are incurred. Restricted contributions received for future expenses are deferred until that future period when they are transferred to revenue.

*Accounting Policy Change* - Effective April 1, 2012, the ministry changed its policy for recording capital transfers and restricted capital contributions. Previously, capital transfers and restricted capital contributions were recorded as revenue when the tangible capital assets were acquired or constructed. As a result of this policy change, capital transfers and restricted capital contributions are recognized as deferred revenue upon receipt and transferred to revenue over the useful life of capital assets based on relevant stipulations by transferring government and restrictions by donors. This policy has been adopted retroactively without restatement of comparatives. As a result, the opening net assets have decreased by $15,013.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

*Government transfers* -Transfers from the Government of Alberta, federal and other governments are referred to as government transfers.

Government transfers are recorded as deferred revenue if the terms of the transfer, or the stipulations together with the department's actions and communications as to the use of transfers create a liability.

*Capital contributions* - Restricted capital contributions are recognized as deferred revenue when received and recognized as revenue over the useful life of the acquired or constructed tangible capital assets.

**Expenses**

*Directly Incurred* - Directly incurred expenses are those costs the ministry has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets,
- pension costs, which are the cost of employer contributions for current service of employees during the year and
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, loans, guarantees and indemnities.

Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

*Incurred by Others* - Services contributed by other entities in support of the ministry operations are not recognized and are disclosed in Schedule 6 and allocated to programs in Schedule 7.

**Assets** - Cash consists of deposits in the Consolidated Cash Investment Fund, which is managed by the President of Treasury Board and Minister of Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

Due to the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for allowance for doubtful accounts, if applicable. The resulting net book value is considered to be equivalent to fair value. This approach applies to cash; accounts receivable; due from Government of Canada; accounts payable and accrued liabilities; and indemnities payable. Fair values of loans receivable, investments, and borrowing from the Government of Alberta are disclosed in their respective schedules and notes.

Investments are carried at cost or amortized cost, unless there is an other than temporary decline in the value of the investments, then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

Loans are recorded at the lower of cost and net recoverable value. Amounts included in the cost of loan receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs. Valuation allowances are recorded to reduce the cost of impaired loans to their net realizable value. A loan is classified as impaired when collection of principal and interest is no longer reasonably assured.

Loans made with significant concessionary terms are discounted. The amounts outstanding are discounted to their estimated present value. The amounts discounted are amortized to revenue over the term of the related concessionary loan.

Tangible capital assets of the ministry are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. Tangible capital assets are restricted to those acquired for cash or exchanged for other assets.

Amortization is only charged if the tangible capital asset is in use.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

**Liabilities** - Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

**Net Assets** - Net assets represent the difference between the carrying value of assets held by the ministry and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The ministry operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, amounts in the AgriInsurance net assets are restricted for AgriInsurance purposes only.

**Measurement Uncertainty** (*in thousands*) - Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

Accounts Receivable, recorded as $13,087 in these financial statements, includes an allowance for doubtful accounts of $20,159 (2012 – $21,898) for estimated losses on premiums receivable and overpayments which is subject to measurement uncertainty. The allowance estimate is based on an assessment of the ability to collect the outstanding balance.

*Loans Receivable* - Loans receivable, recorded as $1,777,383 (2012 – $1,601,352) in these financial statements, include a specific allowance of $17,447 (2012 – $13,742) and a general allowance of $19,945 (2012 – $20,427) that are subject to measurement uncertainty. The amount established for specific and general allowances of $37,392 (2012 – $34,169) to cover estimated losses on loans could change substantially in the future, if factors considered by management in establishing these estimates were to change significantly.

Provisions are established for specifically identified potential losses on loans. When a loan is identified as impaired, a specific provision is established. Specific provisions are established by reducing the recorded investment in the loan by the discounted net present value of the security and the cost of realization. Specific provisions are determined in this manner because the amounts and timing of future cash flows cannot be estimated with reasonable reliability. The provision for doubtful accounts is adjusted for the change in the present value of the security held.

In addition to the specific provision, the ministry establishes a general allowance for doubtful accounts not meeting the specific provision criteria. The general allowance is management's estimate of loss on loan balances based on assessed risk for each account. Risk for each account is determined based on credit risk score, arrears, certain amendments to loan terms and shortfalls of security covering loan balances.

*Indemnities Payable* - Estimated indemnities payable of $202,743 (2012 – $189,912) and corresponding contributions and receivables from the Governments of Canada and Alberta are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for AgriStability and AgriInvest program are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of $93,734 to $156,094.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on potential payments for claims not yet processed.

Indemnities for Livestock Price Insurance Program are based on estimated payments using forward contract prices applicable to policies sold during the fiscal year with settlement dates beyond the end of fiscal year.

**Note 3 Deferred Revenue**
(in thousands)

| | | |
|---|---|---|
| Opening Deferred Revenue | $ | 37,016 |
| Add: Deferred Revenue received and not utilized in the current year | | 21,330 |
| Less: Deferred Revenue recognized as revenue in the current year | | (23,053) |
| Closing Deferral Revenue | $ | 35,293 |

**Note 4 Credit and Interest Rate Risk**
(in thousands)

**Credit Risk** - Credit risk is the risk that a borrower may not pay amounts owing thus resulting in a loss.

The following breakdown of the loans receivable provides an indication of the concentration of credit risk in the loan portfolio.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Dollar | Percentage | Dollar | Percentage |
| Loans receivable by individual sector: | | | | |
| Grain and Oilseeds | $ 832,017 | 47% | $ 750,021 | 47% |
| Cattle | 442,863 | 25% | 408,455 | 26% |
| Accommodations and Other Services | 110,349 | 6% | 77,447 | 5% |
| Manufacturing | 87,934 | 5% | 85,826 | 5% |
| Trade - Retail and Wholesale | 69,063 | 4% | 61,187 | 4% |
| Other Livestock | 66,545 | 4% | 67,168 | 4% |
| Commercial and Industrial | 52,096 | 3% | 47,918 | 3% |
| Transportation and Warehousing | 33,598 | 2% | 25,134 | 1% |
| Professional Services | 26,055 | 1% | 30,864 | 2% |
| Other | 94,253 | 5% | 81,498 | 5% |
| Allowance | (37,392) | -2% | (34,168) | -2% |
| | $ 1,777,381 | 100% | $ 1,601,350 | 100% |

**Interest Rate Risk** - Interest rate risk is the impact future changes in interest rates have on cash flows and fair values of assets and liabilities. Loan balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. The ministry allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or in full prior to the contractual maturity date. Impact of interest rate changes on performance of loan portfolio and cash flows could be significant as a result of changes in market interest rates and borrower's repayment preferences.

The interest rates on borrowings are fixed until maturity. For a vast majority of borrowings, principal repayments are due in full on maturity date with no prepayment option. The Government of Alberta provides an amount to bridge the gap between interest revenue from loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

**Note 4 Credit and Interest Rate Risk (continued)**

The following position of the ministry's loan portfolio and borrowing provides additional information on interest rate risk.

| | Scheduled Repayment [1] | | | | Not Interest Rate Sensitive [2] | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| | Within 1 Year | 1 to 5 Years | 6 to 10 Years | Over 10 Years | | Total | Total |
| | | | | *(in thousands)* | | | |
| Loan balances | $ 168,575 | $ 545,399 | $ 505,968 | $ 558,324 | $ (885) | $ 1,777,381 | $ 1,601,350 |
| Yield [3] | 4.74% | 4.68% | 5.18% | 4.21% | - | 4.77% | 4.86% |
| Rural utilities | $ 2 | $ - | $ - | $ - | $ - | $ 2 | $ 2 |
| Borrowing from | | | | | | | |
| Government of Alberta | $ 83,393 | $ 288,407 | $ 652,064 | $ 767,152 | $ 17,203 | $ 1,808,219 | $ 1,683,078 |
| Yield [3] | 3.91% | 3.85% | 3.68% | 3.20% | - | 3.72% | 3.88% |
| Net gap | $ 85,184 | $ 256,992 | $ (146,096) | $ (208,828) | $ (18,088) | $ (30,836) | $ (81,726) |

[1] For loan balances, scheduled repayments of principal and interest are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For borrowing from the Government of Alberta, scheduled repayments reflect contractual payments of interest and repayment of principal. The interest rates are fixed until maturity.

[2] Includes specific and general allowance, accrued interest, and unamortized loan discount.

[3] Yield represents the rate which discounts future cash receipts to the carrying amount.

**Note 5 Contingent Liabilities**
(in thousands)

The ministry is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate.

The ministry has been named in two (2012: three) claims of which the outcome is not determinable. Of these claims, two (2012: three) have specified amounts totalling $897 (2012: $995). The resolution of indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

**Note 6 Contractual Obligations**
(in thousands)

Contractual obligations are obligations of the ministry to others that will become liabilities in the future when the terms of those contracts or agreements are met.

| | 2013 | 2012 |
|---|---|---|
| Obligations under Operating Leases, Contracts and Programs | $ 64,563 | $ 85,167 |
| Approved, Undisbursed Loans | 153,436 | 127,041 |
| | $ 217,999 | $ 212,208 |

**Note 6 Contractual Obligations (Continued)**

Estimated payment requirements for each of the next five years are as follows:

**Obligations Under Operating Leases, Contracts and Programs**

| | Total |
|---|---|
| 2013-14 | $ 54,364 |
| 2014-15 | 6,476 |
| 2015-16 | 2,531 |
| 2016-17 | 1,166 |
| 2017-18 | 26 |
| | $ 64,563 |

**Loans and Advances**

| | Total |
|---|---|
| 2013-14 | $ 153,436 |
| | $ 153,436 |

**Note 7 Guarantees**
(in thousands)

| | 2013 | 2012 | Expiry Date |
|---|---|---|---|
| Feeder Associations | $ 46,544 | $ 44,902 | Ongoing |
| Agriculture Financial Services Corporation Guarantees | 1,944 | 5,620 | Variable |
| | 48,488 | 50,522 | |
| Allowance for Loan Guarantees | (150) | (150) | |
| | $ 48,338 | $ 50,372 | |

The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the ministry. Prior to issuing a loan, security is taken. The security taken depends on the nature of the loan. There are currently no outstanding guarantees under the *Rural Utilities Act*.

**Note 8 Trust Funds Under Administration**
(in thousands)

The ministry administers trust funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the province has no equity in the funds and administers them for the purpose of various trusts, they are not included in the ministry's financial statements.

As at March 31, 2013 trust funds under administration were as follows:

| | 2013 | 2012 |
|---|---|---|
| 4-H General Trust | $ 98 | $ 71 |
| Wheat Board Monies Trust Fund | 123 | 127 |
| Claude Gallinger Memorial Trust Fund | 21 | 21 |
| | $ 242 | $ 219 |

**Note 9 Benefit Plans**
(in thousands)

The ministry participates in the multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $16,022 for the year ended March 31, 2013 (2012 - $13,979). Ministries are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2012, the Management Employees Pension Plan reported a deficiency of $303,423 (2011 deficiency - $517,726), the Public Service Pension Plan reported a deficiency of $1,645,141 (2011 deficiency - $1,790,383) and the Supplementary Retirement Plan for Public Service Managers had a deficiency of $51,870 (2011 deficiency - $53,489).

The ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2013, the Bargaining Unit Plan reported an actuarial surplus of $51,717 (2012 surplus – $9,136) and the Management, Opted Out, and Excluded Plan an actuarial surplus of $18,327 (2012 surplus - $10,454). The expense for these two plans is limited to the employer's annual contributions for the year.

**Note 10 Comparative Figures**

Certain 2012 figures have been reclassified to conform to the 2013 presentation.

**Note 11 Budget**

The 2012-2013 Government and Lottery Fund Estimates were approved on March 20, 2012.

**Note 12 Approval of the Consolidated Financial Statements**

The consolidated financial statements were approved by the senior financial officer and the deputy minister.

Schedule 1

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED SCHEDULE OF EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

YEAR ENDED MARCH 31, 2013

| | 2013 Budget | 2013 Actual (in thousands) | 2012 Actual |
|---|---|---|---|
| Indemnities | $ 562,418 | $ 729,955 | $ 447,838 |
| Grants | 159,145 | 169,606 | 218,232 |
| Salaries, Wages, Employment Contracts and Benefits | 160,645 | 156,646 | 147,800 |
| Interest | 75,462 | 66,719 | 57,722 |
| Supplies and Services | 63,676 | 56,159 | 54,272 |
| Amortization of Tangible Capital Assets | 15,417 | 15,529 | 14,403 |
| Other Expenses | 40,444 | 40,020 | 37,730 |
| Total | $ 1,077,207 | $ 1,234,634 | $ 977,997 |

Schedule 2

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

BUDGET

YEAR ENDED MARCH 31, 2013

| | 2012-13 Estimate | Adjustment to Conform to Accounting Policy (in thousands) | Revised Estimates |
|---|---|---|---|
| **Revenues** | | | |
| Federal Government Grants | $ 322,590 | $ (7,382) | $ 315,208 |
| Investment Income | 130,229 | - | 130,229 |
| Premiums, Fees and Licenses | 289,486 | - | 289,486 |
| Other Revenue | 9,312 | - | 9,312 |
| | 751,617 | (7,382) | 744,235 |
| **Expenses - Directly Incurred** | | | |
| **Programs** | | | |
| Ministry Support Services | 17,335 | - | 17,335 |
| Agriculture Income Support | 226,288 | - | 226,288 |
| Lending | 39,782 | - | 39,782 |
| Insurance | 429,831 | - | 429,831 |
| Policy and Environment | 67,974 | - | 67,974 |
| Rural and Regulatory Services | 19,555 | - | 19,555 |
| Industry Development and Food Safety | 133,392 | - | 133,392 |
| Livestock and Meat Strategy | 39,088 | - | 39,088 |
| Farm Fuel Distribution Allowance | 28,500 | - | 28,500 |
| Program Expense | 1,001,745 | - | 1,001,745 |
| Debt Servicing Costs | 75,462 | - | 75,462 |
| Total Expense | 1,077,207 | - | 1,077,207 |
| **Net Operating Results** | $ (325,590) | $ (7,382) | $ (332,972) |

Schedule 3

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED SCHEDULE OF LOANS RECEIVABLE

YEAR ENDED MARCH 31, 2013

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Loans Receivable | $ 1,789,703 | $ 1,610,289 |
| Accrued Interest | 25,199 | 25,427 |
| | 1,814,902 | 1,635,716 |
| Less Allowance for Doubtful Accounts | (37,393) | (34,169) |
| Less Loan Discounts | (126) | (195) |
| | $ 1,777,383 | $ 1,601,352 |

Fair values of loans receivable are not disclosed. Determining fair values with sufficient reliability is not practical due to the absence of verifiable information from established financial markets for such loans.

The allowance for doubtful accounts of $37,393 (2012 – $34,169) includes a specific allowance of $17,447 (2012 – $13,742) on impaired loans outstanding of $33,787 (2012 - $27,914), excluding unamortized loan discounts.

Schedule 4

## MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

## CONSOLIDATED SCHEDULE OF INVESTMENTS

### YEAR ENDED MARCH 31, 2013
(in thousands)

| | 2013 | 2012 |
|---|---|---|
| Bonds and Debentures | | |
| Government of Canada, direct and guaranteed | $ 516,450 | $ 489,677 |
| Other provincial, direct and guaranteed | 180,011 | 304,425 |
| | 696,461 | 794,102 |
| Corporate Securities | 416,537 | 283,864 |
| | 1,112,998 | 1,077,966 |
| Accrued interest | 6,773 | 6,880 |
| | $ 1,119,771 | $ 1,084,846 |

| | Term to Maturity | | | | |
|---|---|---|---|---|---|
| | Within 1 Year | 1 to 5 Years | 6 to 10 Years | 2013 Total | 2012 Total |
| Bonds and Debentures | $ 272,214 | $ 387,494 | $ 36,753 | $ 696,461 | $ 794,102 |
| Yield | 1.05% | 1.41% | 1.93% | 1.30% | 1.53% |
| Corporate Securities | - | 416,537 | - | 416,537 | 283,864 |
| Yield | - | 1.73% | - | 1.73% | 2.29% |
| | 272,214 | 804,031 | 36,753 | 1,112,998 | 1,077,966 |
| Accrued Interest | 1,401 | 5,036 | 336 | 6,773 | 6,880 |
| | $ 273,615 | $ 809,067 | $ 37,089 | $ 1,119,771 | $ 1,084,846 |

The fair value of investments at March 31, 2013 is $1,132,523 (2012 - $1,091,768). Fair value is based on quoted market prices including accrued interest.

Schedule 5

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS

YEAR ENDED MARCH 31, 2013
(in thousands)

| Estimated Useful Life | Land Indefinite | Buildings 25 - 40 years | Equipment and Vehicles 5 - 10 years | Computer Hardware and Software 2 - 10 years | Rail Hopper Cars 35 years | Leasehold Improvements 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Historical Cost** [1] | | | | | | | |
| Beginning of Year | $ 347 | $ 11,726 | $ 58,132 | $ 94,308 | $ 49,506 | $ 133 | $ 214,152 |
| Additions | - | - | 2,743 | 9,343 | - | - | 12,086 |
| Disposals | - | - | (627) | (1,338) | (212) | - | (2,177) |
| | $ 347 | $ 11,726 | $ 60,248 | $ 102,313 | $ 49,294 | $ 133 | $ 224,061 |
| **Accumulated Amortization** | | | | | | | |
| Beginning of Year | $ - | $ 4,409 | $ 33,102 | $ 51,231 | $ 43,989 | $ 73 | $ 132,804 |
| Amortization Expense | - | 406 | 4,094 | 9,592 | 1,409 | 27 | 15,528 |
| Effect of Disposals | - | - | (567) | (1,315) | (191) | - | (2,073) |
| | $ - | $ 4,815 | $ 36,629 | $ 59,508 | $ 45,207 | $ 100 | $ 146,259 |
| **Net Book Value at March 31, 2013** | $ 347 | $ 6,911 | $ 23,619 | $ 42,805 | $ 4,087 | $ 33 | $ 77,802 |
| **Net Book Value at March 31, 2012** | $ 347 | $ 7,317 | $ 25,030 | $ 43,077 | $ 5,517 | $ 60 | $ 81,348 |

[1] Historical cost includes work-in-progress at March 31, 2013 totaling $6,801 comprised of: equipment $1,129 (2012 - $1,095) and computer hardware and software $5,672 (2012 - $5,208).

Schedule 6

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED SCHEDULE OF BORROWING FROM THE GOVERNMENT OF ALBERTA

YEAR ENDED MARCH 31, 2013
(in thousands)

All borrowings from the Government of Alberta bear interest rates which are fixed for the term of the borrowing. Repayment of principal is on maturity with the exception of a small number of borrowings which require blended repayments during the term.

| | 2013 | 2012 |
|---|---|---|
| **Annual Interest Rate** | | |
| Less than 2% | $ 383,000 | $ - |
| 2.01% to 3.00% | 734,238 | 208,000 |
| 3.01% to 4.00% | 574,751 | 734,238 |
| 4.01% to 5.00% | 99,027 | 594,751 |
| 5.01% to 6.00% | - | 125,080 |
| | 1,791,016 | 1,662,069 |
| Accrued interest | 14,266 | 14,753 |
| Unamortized premium | 2,937 | 6,256 |
| | $ 1,808,219 | $ 1,683,078 |

The estimated fair value at March 31, 2013 is $1,945,413 (2012 - $1,793,700). Fair value is an approximation of market value to the holder.

Scheduled principal repayments in each of the next five years and thereafter are as follows:

| Year ending March 31, | | |
|---|---|---|
| | 2014 | $ 83,393 |
| | 2015 | 45,479 |
| | 2016 | 108,642 |
| | 2017 | 65,506 |
| | 2018 | 68,780 |
| | Thereafter | 1,419,216 |
| | | $ 1,791,016 |

Schedule 7

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED SCHEDULE OF RELATED PARTY TRANSACTIONS

YEAR ENDED MARCH 31, 2013
(in thousands)

Related parties are those entities consolidated or accounted for on a modified equity basis in the Government of Alberta's financial statements. Related parties also include management in the ministry.

The ministry and its employees paid certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The ministry had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties.

| | 2013 | 2012 (Restated) |
|---|---|---|
| Revenues: | | |
| Grants | $ - | $ 1,255 |
| Other | 513 | 547 |
| | $ 513 | $ 1,802 |
| Expenses - Directly Incurred: | | |
| Grants | $ 11,276 | $ 11,452 |
| Accommodation | 799 | 834 |
| Other services | 3,453 | 3,578 |
| Interest | 66,719 | 57,472 |
| | $ 82,247 | $ 73,336 |
| Payable to | | |
| Ministry of Treasury Board and Finance | $ 1,809,259 | $ 1,685,430 |
| Ministry of Enterprise and Advanced Education | 930 | 3,919 |
| Ministry of Service Alberta | 4 | 54 |
| Ministry of International and Intergovernmental Relations | 35 | 4 |
| Legislative Assembly | 6 | - |
| Receivable from | | |
| Ministry of Enterprise and Advanced Education | 127 | 48 |
| Ministry of Municipal Affairs | - | 1,255 |
| Deferred Revenue from | | |
| Ministry of Enterprise and Advanced Education | 439 | 128 |
| | $ 1,810,800 | $ 1,690,838 |

The ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements but are disclosed in Schedule 7.

| | 2013 | 2012 (Restated) |
|---|---|---|
| Expenses incurred by others: | | |
| Accommodation | $ 26,108 | $ 23,943 |
| Legal | 1,123 | 999 |
| Other services | 5,455 | 4,592 |
| | $ 32,686 | $ 29,534 |

Note: The ministry receives services under contracts managed by the Ministry of Service Alberta. Any commitments under these contracts are reported by the Ministry of Service Alberta.

Schedule 8

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED SCHEDULE OF ALLOCATED COSTS

YEAR ENDED MARCH 31, 2013
(in thousands)

| | 2013 | | | | | | | | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| | | Expenses - Incurred by Others | | | | | | | |
| Program | Expenses[1] | Accommodation Costs [2] | Legal Services [3] | Service Alberta[4] | Air Services[5] | Corporate Internal Audit Services[6] | Learning Centre[7] | Total Expenses | Total Expenses (Restated) |
| Ministry Support Services | $ 17,241 | $ 2,587 | $ 271 | $ 5,104 | $ 180 | $ 133 | $ 4 | $ 25,520 | $ 21,840 |
| Agriculture Income Support | 112,142 | 86 | - | - | - | - | - | 112,228 | 123,345 |
| Lending | 37,268 | 746 | - | - | - | - | - | 38,014 | 33,237 |
| Insurance | 711,089 | 1,116 | - | - | - | - | - | 712,205 | 414,748 |
| Policy and Environment | 65,205 | 6,096 | 100 | - | - | - | 10 | 71,411 | 78,085 |
| Rural and Regulatory Services | 24,782 | 3,037 | 149 | - | - | - | 5 | 27,973 | 22,791 |
| Industry Development and Food Safety | 128,293 | 12,440 | 600 | - | - | - | 19 | 141,352 | 186,372 |
| Livestock and Meat Strategy | 36,672 | - | 3 | - | - | - | - | 36,675 | 37,919 |
| Farm Fuel Distribution Allowance | 35,223 | - | - | - | - | - | - | 35,223 | 31,472 |
| | $ 1,167,915 | $ 26,108 | $ 1,123 | $ 5,104 | $ 180 | $ 133 | $ 38 | $ 1,200,601 | $ 949,809 |

(1) Expenses - Directly incurred per Consolidated Statements of Operations, excluding valuation adjustments and debt servicing costs.
(2) Costs shown for Accommodation (includes grants in lieu of taxes) on Schedule 7, allocated by budgeted full-time equivalent employment.
(3) Costs shown for Legal Services on Schedule 7, allocated by estimated costs incurred by each program.
(4) Costs shown for Service Alberta on Schedule 7 (Other services), allocated by estimated costs incurred by each program.
(5) Costs shown for Air Transportation on Schedule 7 (Other services), allocated by estimated costs incurred by each program.
(6) Costs shown for Corporate Internal Audit Services on Schedule 7 (Other services), allocated by estimated costs incurred by each program.
(7) Costs shown for Learning Centre on Schedule 7 (Other services), allocated by budgeted full-time equivalent employment.

# DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

FINANCIAL STATEMENTS
Year ended March 31, 2013


Independent Auditor's Report

Statement of Operations

Statement of Financial Position

Statement of Cash Flows

Notes to the Financial Statements

Schedule of Revenues

Schedule of Credit or Recovery

Schedule of Expenses – Directly Incurred Detailed by Object

Schedule of Budget

Schedule of Lapse/Encumbrance

Schedule of Comparison of Actual and Budget

Schedule of Lottery Fund Estimates

Schedule of Salary and Benefits Disclosure

Schedule of Related Party Transactions

Schedule of Allocated Costs

AUDITOR GENERAL *Alberta*

# Independent Auditor's Report

To the Minister of Agriculture and Rural Development

## Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Agriculture and Rural Development, which comprise the statement of financial position as at March 31, 2013, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Agriculture and Rural Development as at March 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]
Auditor General

June 5, 2013
Edmonton, Alberta

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2013

| | 2013 Revised Budget (Schedule 4) | 2013 Actual | 2012 Actual |
|---|---|---|---|
| | | (in thousands) | |
| **Revenues (Schedule 1)** | | | |
| Government Transfers | | | |
| Government of Alberta Grants | $ 500 | $ 1,628 | $ 2,225 |
| Federal Government Grants | 29,740 | 31,776 | 40,071 |
| Premiums, Fees and Licenses | 1,259 | 1,557 | 1,545 |
| Other Revenue | 7,137 | 8,065 | 8,633 |
| | **38,636** | **43,026** | **52,474** |
| **Expenses - Directly Incurred (Note 2(b) and Schedule 10)** | | | |
| **Program (Schedules 3 and 6)** | | | |
| Ministry Support Services | 17,335 | 17,241 | 14,698 |
| Policy and Environment | 68,474 | 65,705 | 72,332 |
| Rural and Regulatory Services | 19,555 | 24,782 | 19,824 |
| Industry Development and Food Safety | 138,755 | 133,371 | 179,985 |
| Farm Fuel Distribution Allowance | 28,500 | 35,223 | 31,472 |
| Livestock and Meat Strategy | 31,400 | 30,022 | 29,709 |
| Agriculture Insurance and Lending Assistance | | | |
| Lending | 16,480 | 16,480 | 7,560 |
| Insurance | 207,074 | 228,330 | 211,264 |
| Wildlife | 4,559 | 2,688 | 2,851 |
| Income Stabilization | 101,252 | 60,103 | 62,227 |
| | **633,384** | **613,945** | **631,922** |
| **Net Operating Results** | **$ (594,748)** | **$ (570,919)** | **$ (579,448)** |

*The accompanying notes and schedules are part of these financial statements.*

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2013

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| **Assets** | | |
| Cash | $ 312 | $ 417 |
| Accounts Receivable (Note 3) | 30,694 | 25,082 |
| Tangible Capital Assets (Note 4) | 31,009 | 33,459 |
| | **$ 62,015** | **$ 58,958** |
| **Liabilities** | | |
| Accounts Payable and Accrued Liabilities (Note 5) | $ 138,068 | $ 75,976 |
| Deferred Revenue (Note 6) | 4,598 | 3,179 |
| | **142,666** | **79,155** |
| **Net Liabilities** | | |
| Net Liabilities at Beginning of Year | (20,197) | (2,024) |
| Less: Adjustment to Opening Net Assets | (808) | - |
| Net Operating Results | (570,919) | (579,448) |
| Net Financing Provided from General Revenues | 511,273 | 561,275 |
| Net Liabilities at End of Year | (80,651) | (20,197) |
| | **$ 62,015** | **$ 58,958** |

Contractual obligations and contingent liabilities (Notes 7 and 8)

*The accompanying notes and schedules are part of these financial statements.*

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2013

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| **Operating Transactions** | | |
| Net Operating Results | $ (570,919) | $ (579,448) |
| Non-cash Items Included in Net Operating Results | | |
| Amortization | 6,668 | 6,018 |
| Loss on Disposal of Tangible Capital Assets | 77 | 29 |
| | **(564,174)** | **(573,401)** |
| (Increase) Decrease in Accounts Receivable | (5,612) | 7,995 |
| Increase in Accounts Payable and Accrued Liabilities | 62,092 | 8,364 |
| Increase (Decrease) in Deferred Revenue | 611 | (526) |
| Cash Applied to Operating Transactions | **(507,083)** | **(557,568)** |
| **Capital Transactions** | | |
| Acquisition of Tangible Capital Assets[1] | (4,316) | (3,490) |
| Proceeds on Disposal of Tangible Capital Assets | 21 | 16 |
| Cash Applied to Capital Transactions | **(4,295)** | **(3,474)** |
| **Financing Transactions** | | |
| Net Financing Provided from General Revenues | 511,273 | 561,275 |
| Cash Provided by Financing Transactions | **511,273** | **561,275** |
| **(Decrease) Increase in Cash** | **(105)** | **233** |
| **Cash at Beginning of Year** | **417** | **184** |
| **Cash at End of Year** | **$ 312** | **$ 417** |

*The accompanying notes and schedules are part of these financial statements.*

[1] Includes Capital Asset Transfer from Alberta Livestock and Meat Agency Ltd. of $19.

**Notes to the Financial Statements for the Year Ended March 31, 2013**

**Note 1 Authority and Purpose**

The Department of Agriculture and Rural Development operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000. The purpose of the Department is to enable the growth of a globally competitive, sustainable agriculture and food industry through essential policy, legislation, information and services in partnership with vibrant rural communities.

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**Note 2 Summary of Significant Accounting Policies and Reporting Practices**

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

**(a) Reporting Entity**

The reporting entity is the Department of Agriculture and Rural Development, which is part of the Ministry of Agriculture and Rural Development and for which the Minister of Agriculture and Rural Development is accountable. Other entities reporting to the Minister are Agriculture Financial Services Corporation and Alberta Livestock and Meat Agency Ltd. The activities of these organizations are not included in these financial statements. The ministry annual report provides a more comprehensive accounting of the financial position and results of the ministry's operations for which the minister is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the President of Treasury Board and Minister of Finance. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net Financing Provided from General Revenues is the difference between all cash receipts and all cash disbursements made.

**(b) Basis of Financial Reporting**

**Revenue Accounting Policy** - All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as deferred revenue.

*Accounting Policy Change* - Effective April 1, 2012, the department changed its policy for recording capital transfers and restricted capital contributions. Previously, capital transfers and restricted capital contributions were recorded as revenue when the tangible capital assets were acquired or constructed. As a result of this policy change, capital transfers and restricted capital contributions are recognized as deferred revenue upon receipt and transferred to revenue over the useful life of capital assets based on relevant stipulations by transferring government. This policy has been adopted retroactively without restatement of comparatives. As a result, the opening net liabilities have been increased by $808,000.

*Government transfers* -Transfers from the Government of Alberta, federal and other governments are referred to as government transfers.

Government transfers are recorded as deferred revenue if the terms for use of the transfer, or the stipulations together with the department's actions and communications as to the use of the transfers, create a liability.

*Capital Contributions* – Restricted capital contributions are recognized as deferred revenue when received and recognized as revenue over the useful life of the acquired or constructed tangible capital asset.

All other government transfers, without terms for the use of the transfer, are recorded as revenue when the department is eligible to receive the funds.

*Credit or Recovery* - Credit or Recovery initiatives provide a basis for authorizing spending. Credits or Recoveries are shown in the details of the Government Estimates for a supply vote. If budgeted revenues are not fully realized, spending is reduced by an equivalent amount. If actual Credit or Recovery amounts exceed budget, the department may, with the approval of the Treasury Board Committee, use the excess to fund additional expenses of the program. Schedule 2 discloses information on the department's Credit or Recovery initiatives.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

**Expenses**

*Directly Incurred* - Directly incurred expenses are those costs the department has primary responsibility and accountability for, as reflected in the government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets,
- pension costs, which are the cost of employer contributions for current service of employees during the year, and
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

*Incurred by Others* - Services contributed by other entities in support of the department operations are not recognized and are disclosed in Schedule 9 and allocated to programs in Schedule 10.

**Assets** - Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Tangible capital assets of the department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $250,000 and the threshold for major system enhancements is $100,000. The threshold for all other tangible capital assets is $5,000. All land is capitalized.

Contributed tangible capital assets are recorded at their fair value at the time of contribution.

Amortization is only charged if the tangible capital asset is in use.

**Liabilities** - Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

**Net Liabilities** - Net liabilities represent the difference between the carrying value of assets held by the department and its liabilities.

Canadian Public Sector Accounting Standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The department operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

**Measurement Uncertainty** (*in thousands*) - Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

The department's contribution to Agriculture Financial Services Corporation for the department's share of program payments under the Agri-Invest, Agri-Stability and Agri-Recovery programs, recorded as $60,400 in these financial statements, is subject to measurement uncertainty. The department's contribution for these programs could change substantially in the future, if factors considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for AgriStability and AgriInvest program are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of $50,761 to $81,946.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on potential payments for claims not yet processed.

**Valuation of Financial Assets and Liabilities**

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of Cash, Accounts Receivable, and Accounts Payable and Accrued Liabilities are estimated to approximate their carrying values because of the short term nature of these instruments. Fair values of loans are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

**Note 3 Accounts Receivable**

(in thousands)

| | Gross Amount | 2013 Allowance for Doubtful Accounts | Net Realizable Value | 2012 Net Realizable Value |
|---|---|---|---|---|
| Accounts receivable | $ 30,916 | $ 271 | $ 30,645 | $ 25,071 |
| Refunds from suppliers | 45 | - | 45 | 4 |
| Loans and Advances | 5 | 1 | 4 | 7 |
| | $ 30,966 | $ 272 | $ 30,694 | $ 25,082 |

Accounts receivable are unsecured and non-interest bearing.

## Note 4 Tangible Capital Assets
(in thousands)

| | Buildings | Equipment and Vehicles | Computer Hardware and Software | Rail Hopper Cars | Total |
|---|---|---|---|---|---|
| **Estimated Useful Life** | **40 years** | **5 - 10 years** | **3 - 5 years** | **35 years** | |
| **Historical Cost**[1] | | | | | |
| Beginning of Year | $ 1,739 | $ 49,674 | $ 9,906 | $ 49,506 | $ 110,825 |
| Additions[2] | - | 2,479 | 1,863 | - | 4,342 |
| Disposals | - | (612) | (123) | (212) | (947) |
| | 1,739 | 51,541 | 11,646 | 49,294 | 114,220 |
| **Accumulated Amortization** | | | | | |
| Beginning of Year | 436 | 28,605 | 4,336 | 43,989 | 77,366 |
| Amortization Expense[2] | 43 | 3,686 | 1,556 | 1,409 | 6,694 |
| Effect of Disposals | - | (558) | (100) | (191) | (849) |
| | 479 | 31,733 | 5,792 | 45,207 | 83,211 |
| **Net Book Value at March 31, 2013** | $ 1,260 | $ 19,808 | $ 5,854 | $ 4,087 | $ 31,009 |
| **Net Book Value at March 31, 2012** | $ 1,303 | $ 21,069 | $ 5,570 | $ 5,517 | $ 33,459 |

(1) Historical cost includes work-in-progress at March 31, 2013 totaling $1,905 comprised of: equipment $1,129 (2012 - $1,095) and computer hardware and software $776 (2012 - $3,169).
(2) Includes transfer of computer hardware from Alberta Livestock and Meat Agency Ltd. comprised of historical cost of $45 and accumulated amortization of $26.

## Note 5 Accounts Payable and Accrued Liabilities
(in thousands)

| | 2013 | 2012 |
|---|---|---|
| Accounts Payable – General | $ 988 | $ 460 |
| Manpower | 10,987 | 10,540 |
| Grants | 122,610 | 62,464 |
| Supplies and Services and Capital Purchases | 3,483 | 2,512 |
| | $ 138,068 | $ 75,976 |

## Note 6 Deferred Revenue
(in thousands)

| | |
|---|---|
| Opening Deferred Revenue | $ 3,987 |
| Add: Deferred Revenue received and not utilized in the current year | 5,367 |
| Less: Deferred Revenue recognized as revenue in the current year | (4,756) |
| Closing Deferral Revenue | $ 4,598 |

**Note 7 Contractual Obligations**
(in thousands)

Contractual obligations are obligations of the department to others that will become liabilities in the future when the terms of those contracts or agreements are met.

| | 2013 | 2012 |
|---|---|---|
| Obligations under Operating Leases, Contracts and Programs | $ 28,024 | $ 44,540 |
| | $ 28,024 | $ 44,540 |

Estimated payment requirements for each of the next five years are as follows:

**Obligations Under Operating Leases, Contracts and Programs**

| | Total |
|---|---|
| 2013-14 | $ 20,572 |
| 2014-15 | 4,632 |
| 2015-16 | 1,843 |
| 2016-17 | 951 |
| 2017-18 | 26 |
| | $ 28,024 |

---

**Note 8 Contingent Liabilities**
(in thousands)

The department is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate.

The department has been named in one (2012: two) claim of which the outcome is not determinable. This claim has a specified amount totalling $500 (2012: $598). The resolution of indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

---

**Note 9 Guarantees**
(in thousands)

| | 2013 | 2012 | Expiry Date |
|---|---|---|---|
| Feeder Associations | $ 46,544 | $ 44,902 | Ongoing |
| | $ 46,544 | $ 44,902 | |

Guarantee programs and their limits are established under the following Acts:

- *Feeder Associations Guarantee Act* (authorized guarantee limit set by Order in Council is $55 million)
- *Rural Utilities Act* (authorized guarantee limit set by statute is $50 million). There are currently no outstanding guarantees under this act.

The lender takes appropriate security prior to issuing a loan to the borrower, which is guaranteed by the province. The security taken depends on the nature of the loan. Interest rates are negotiated with the lender by the borrower.

---

**Note 10 Trust Funds Under Administration**
(in thousands)

The department administers trust funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the province has no equity in the funds and administers them for the purpose of various trusts, they are not included in the department's financial statements.

As at March 31, 2013 trust funds under administration were as follows:

| | 2013 | 2012 |
|---|---|---|
| 4-H General Trust | $ 98 | $ 71 |
| Wheat Board Monies Trust Fund | 123 | 127 |
| Claude Gallinger Memorial Trust Fund | 21 | 21 |
| | $ 242 | $ 219 |

**Note 11 Benefit Plans**
(in thousands)

The department participates in the multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $10,161 for the year ended March 31, 2013 (2012 – $8,970). Departments are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2012, the Management Employees Pension Plan reported a deficiency of $303,423 (2011 deficiency - $517,726), the Public Service Pension Plan reported a deficiency of $1,645,141 (2011 deficiency - $1,790,383) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $51,870 (2011 deficiency - $53,489).

The department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2013, the Bargaining Unit Plan reported an actuarial surplus of $51,717 (2012 surplus - $9,136) and the Management, Opted Out and Excluded Plan an actuarial surplus of $18,327 (2011 surplus - $10,454). The expense for these two plans is limited to the employer's annual contributions for the year.

**Note 12 Comparative Figures**

Certain 2012 figures have been reclassified to conform to the 2013 presentation.

**Note 13 Approval of the Financial Statements**

The financial statements were approved by the senior financial officer and the deputy minister.

Schedule 1

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

REVENUES

YEAR ENDED MARCH 31, 2013

| | 2013 | | 2012 |
|---|---|---|---|
| | Revised Budget | Actual (in thousands) | Actual |
| Government of Alberta Grants | $ 500 | $ 1,628 | $ 2,225 |
| Federal Government Grants | | | |
| BSE Surveillance | 2,000 | 518 | 1,942 |
| Growing Forward | 25,960 | 29,372 | 36,345 |
| AgriFlex | 1,780 | 1,701 | 1,683 |
| Other | - | 185 | 101 |
| | 29,740 | 31,776 | 40,071 |
| Other Revenue | | | |
| Project Contributions | 5,371 | 4,963 | 4,507 |
| Rail Hopper Car Revenue | 900 | 1,079 | 1,375 |
| Green Certificate and Home Study | 400 | 420 | 578 |
| Publications | 225 | 261 | 224 |
| Refunds of Expenditures Previous Years | - | 470 | 734 |
| Surplus Sales | - | 43 | 28 |
| Miscellaneous | 241 | 829 | 1,187 |
| | 7,137 | 8,065 | 8,633 |
| Premiums, Fees and Licenses | | | |
| Food Processing Centre Fees | 850 | 911 | 798 |
| Livestock Water Program | 180 | 113 | 99 |
| Meat Services | 135 | 144 | 139 |
| Other | 94 | 389 | 509 |
| | 1,259 | 1,557 | 1,545 |
| Total Revenues | $ 38,636 | $ 43,026 | $ 52,474 |

Schedule 2

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

CREDIT OR RECOVERY

YEAR ENDED MARCH 31, 2013

| | 2013 | | |
|---|---|---|---|
| | Revised Budget (a) | Actual (in thousands) | (Shortfall)/ Excess |
| **Program Operating** | | | |
| Ministry Support Services | $ 250 | $ 255 | $ 5 |
| Policy and Environment | 12,723 | 13,059 | 336 |
| Rural and Regulatory Services | 506 | 669 | 163 |
| Industry Development and Food Safety | 28,974 | 26,029 | (2,945) |
| | $ 42,453 | $ 40,012 | $ (2,441) [1] |
| **Capital Investments** | | | |
| Ministry Support Services | $ - | $ - | $ - |
| Policy and Environment | 165 | 228 | 63 |
| Rural and Regulatory Services | - | - | - |
| Industry Development and Food Safety | - | 359 | 359 |
| | $ 165 | $ 587 | $ 422 |

Ministry Support Services credit or recovery initiatives include fees for sale of publications ($229) and farm implement dealers' licenses ($26).

Policy and Environment credit or recovery initiatives include federal revenue under the Growing Forward Agreement ($10,517) and Agriflex ($1,138), fees and contributions for Irrigation and Farm Water Program ($751), contributions for Environmental Stewardship ($775) and external contributions to other projects and initiatives ($106).

Rural Development and Regulatory Services credit or recovery initiatives include fees and contributions for Regulatory Services ($504) and Rural Utilities ($165).

Industry Development and Food Safety credit or recovery initiatives include federal revenue under the Growing Forward Agreement ($18,675) and Agriflex ($559), fees and contributions for Food Safety and Animal Health ($437), Research and Innovation ($4,724), Food Processing Development ($1,515), Rural Extension and Industry Development ($456) and external contributions to other projects and initiatives ($22).

The revenue of each initiative is included in the Statement of Operations.

(a) Authorized budget includes credit or recovery increases approved by Treasury Board on July 19, 2012 and January 22, 2013.

Treasury Board approval is pursuant to Section 24 (2) of the *Financial Administration Act*.
Only expenditures are authorized.

[1] Shortfall is deducted from current year's authorized budget, as disclosed in Schedules 4 and 5 to the financial statements.

Schedule 3

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

YEAR ENDED MARCH 31, 2013

| | 2013 Budget | 2013 Actual (in thousands) | 2012 Actual |
|---|---|---|---|
| Salaries, Wages and Employee Benefits | $ 97,652 | $ 96,881 | $ 91,858 |
| Supplies and Services | 33,616 | 28,243 | 28,583 |
| Grants | 495,116 | 482,017 | 505,326 |
| Financial Transactions and Other | - | 136 | 137 |
| Amortization of Tangible Capital Assets | 7,000 | 6,668 | 6,018 |
| | $ 633,384 | $ 613,945 | $ 631,922 |

Schedule 4

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

BUDGET

YEAR ENDED MARCH 31, 2013

| | 2012-13 Estimate | Adjustment to Conform to Accounting Policy | Revised Estimates (in thousands) | Adjustment (a) | 2012-13 Authorized Budget |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Government of Alberta Grants | $ 500 | $ - | $ 500 | $ - | $ 500 |
| Federal Government Grants | 30,296 | (556) | 29,740 | 5,246 | 34,986 |
| Premiums, Fees and Licenses | 1,259 | - | 1,259 | 274 | 1,533 |
| Other Revenue | 7,137 | - | 7,137 | 1,546 | 8,683 |
| | 39,192 | (556) | 38,636 | 7,066 | 45,702 |
| **Expenses - Directly Incurred** | | | | | |
| **Programs** | | | | | |
| Ministry Support Services | 17,335 | - | 17,335 | (479) | 16,856 |
| Policy and Environment | 68,474 | - | 68,474 | 478 | 68,952 |
| Rural and Regulatory Services | 19,555 | - | 19,555 | 130 | 19,685 |
| Industry Development and Food Safety | 138,755 | - | 138,755 | 3,908 | 142,663 |
| Farm Fuel Distribution Allowance | 28,500 | - | 28,500 | - | 28,500 |
| Agriculture Insurance and Lending Assistance | 329,365 | - | 329,365 | - | 329,365 |
| Livestock and Meat Strategy | 31,400 | - | 31,400 | - | 31,400 |
| Credit or Recovery (Shortfall) (Schedule 2) | - | - | - | (2,441) | (2,441) |
| | 633,384 | - | 633,384 | 1,596 | 634,980 |
| **Net Operating Results** | $ (594,192) | $ (556) | $ (594,748) | $ 5,470 | $ (589,278) |
| Capital Investment | $ 2,196 | $ - | $ 2,196 | $ 3,029 | $ 5,225 |

(a) Adjustments include credit or recovery increases approved by Ministry of Treasury Board and Finance and credit or recovery shortfalls. Credit or recovery increases were approved on July 19, 2012, October 22, 2012 and January 22, 2013. Treasury Board approval is pursuant to Section 24 (2) of the *Financial Administration Act*.

Schedule 5

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

LAPSE/ENCUMBRANCE

YEAR ENDED MARCH 31, 2013

| Program Operating | | Voted Estimate [1] | Adjustments [2] | Adjusted Voted Estimate | Actuals [3] | Unexpended (Over Expended) |
|---|---|---|---|---|---|---|
| | | | | (in thousands) | | |
| 1.0 | Ministry Support Services | | | | | |
| 1.1 | Minister's Office | $ 565 | $ - | $ 565 | $ 586 | $ (21) |
| 1.2 | Deputy Minister's Office | 726 | - | 726 | 700 | 26 |
| 1.3 | Farmers' Advocate | 993 | - | 993 | 970 | 23 |
| 1.4 | Corporate Services | 11,968 | (464) | 11,504 | 11,523 | (19) |
| 1.5 | Communications | 420 | - | 420 | 379 | 41 |
| 1.6 | Human Resources | 1,963 | (15) | 1,948 | 2,006 | (58) |
| | | 16,635 | (479) | 16,156 | 16,164 | (8) |
| 2.0 | Policy and Environment | | | | | |
| 2.1 | Program Support | 410 | - | 410 | 398 | 12 |
| 2.2 | Alberta Grains Council | 262 | - | 262 | 253 | 9 |
| 2.3 | Economics and Competitiveness | 3,636 | - | 3,636 | 3,714 | (78) |
| 2.4 | Policy, Strategy and Intergovernmental Affairs | 8,005 | (228) | 7,777 | 7,220 | 557 |
| 2.5 | Irrigation and Farm Water | 11,318 | (500) | 10,818 | 10,844 | (26) |
| 2.6 | Environmental Stewardship | 18,643 | 1,206 | 19,849 | 19,883 | (34) |
| 2.7 | Irrigation Infrastructure Assistance | 24,000 | - | 24,000 | 20,998 | 3,002 |
| | | 66,274 | 478 | 66,752 | 63,310 | 3,442 |
| 3.0 | Rural and Regulatory Services | | | | | |
| 3.1 | Program Support | 379 | - | 379 | 680 | (301) |
| 3.2 | Marketing Council | 988 | - | 988 | 769 | 219 |
| 3.3 | Rural Development | 1,598 | - | 1,598 | 6,517 | (4,919) |
| 3.4 | Rural Utilities | 6,633 | - | 6,633 | 6,402 | 231 |
| 3.5 | Regulatory Services | 9,897 | 130 | 10,027 | 10,387 | (360) |
| | | 19,495 | 130 | 19,625 | 24,755 | (5,130) |

Schedule 5 (continued)

| | | Voted Estimate [1] | Adjustments [2] | Adjusted Voted Estimate | Actuals [3] | Unexpended (Over Expended) |
|---|---|---|---|---|---|---|
| 4.0 | Industry Development and Food Safety | | | | | |
| 4.1 | Program Support | 484 | - | 484 | 307 | 177 |
| 4.2 | Food Chain Traceability | 7,862 | 580 | 8,442 | 6,506 | 1,936 |
| 4.3 | Research and Innovation | 19,814 | 460 | 20,274 | 20,150 | 124 |
| 4.4 | Food Processing Development | 6,293 | 90 | 6,383 | 5,859 | 524 |
| 4.5 | Food Safety and Animal Health | 21,285 | 2,378 | 23,663 | 21,996 | 1,667 |
| 4.6 | Surveillance Support | 5,787 | (300) | 5,487 | 3,318 | 2,169 |
| 4.7 | Rural Extension and Industry Development | 29,630 | 700 | 30,330 | 28,030 | 2,300 |
| 4.8 | Major Fairs and Exhibitions | 21,840 | - | 21,840 | 21,840 | - |
| 4.9 | Agricultural Service Boards | 11,600 | - | 11,600 | 11,586 | 14 |
| 4.10 | Agricultural Societies | 8,670 | - | 8,670 | 8,670 | - |
| 4.11 | Agriculture Initiatives | 1,450 | - | 1,450 | 1,450 | - |
| | | 134,715 | 3,908 | 138,623 | 129,712 | 8,911 |
| 5.0 | Farm Fuel Distribution Allowance | 28,500 | - | 28,500 | 35,223 | (6,723) |
| 6.0 | Agriculture Insurance and Lending Assistance | | | | | |
| 6.1 | Lending Assistance | 16,480 | - | 16,480 | 16,480 | - |
| 6.2 | Insurance | 207,074 | - | 207,074 | 228,330 | (21,256) |
| 6.3 | Wildlife Damage | 4,559 | - | 4,559 | 2,688 | 1,871 |
| 6.4 | AgriStability | 101,252 | - | 101,252 | 60,285 | 40,967 |
| 6.5 | AgriRecovery | - | - | - | (182) | 182 |
| | | 329,365 | - | 329,365 | 307,601 | 21,764 |
| 7.0 | Livestock and Meat Strategy | | | | | |
| | Assistance to the Alberta Livestock and Meat Agency Ltd. | 31,400 | - | 31,400 | 30,022 | 1,378 |
| | Credit or Recovery (Shortfall) (Schedule 2) | - | (2,441) | (2,441) | - | (2,441) |
| Total | | $ 626,384 | $ 1,596 | $ 627,980 | $ 606,787 | $ 21,193 |
| **Lapse/(Encumberance)** | | | | | | $ 21,193 |

Schedule 5 (continued)

| Program - Capital Investments | Voted Estimate [1] | Adjustments [2] | Adjusted Voted Estimate | Actuals [3] | Unexpended (Over Expended) |
|---|---|---|---|---|---|
| 1.0 Ministry Support Services | $ 1,000 | $ 230 | $ 1,230 | $ 1,024 | $ 206 |
| 1.4 Corporate Services | - | 15 | 15 | - | 15 |
| 1.6 Human Resources | - | 740 | 740 | 453 | 287 |
| 2.0 Policy and Environment | 200 | - | 200 | 235 | (35) |
| 2.4 Policy, Strategy and Intergovernmental Affairs | - | 400 | 400 | 284 | 116 |
| 2.5 Irrigation and Farm Water | - | - | - | 5 | (5) |
| 2.6 Environmental Stewardship | - | 100 | 100 | 49 | 51 |
| 3.0 Rural and Regulatory Services | 350 | 870 | 1,220 | 1,225 | (5) |
| 3.4 Rural Utilities | 266 | 334 | 600 | 521 | 79 |
| 4.0 Industry Development and Food Safety | 380 | 40 | 420 | 405 | 15 |
| 4.2 Food Chain Traceability | - | 300 | 300 | 9 | 291 |
| 4.3 Research and Innovation | - | - | - | - | - |
| 4.4 Food Processing Development | | | | | $ 1,015 |
| 4.5 Food Safety and Animal Health | | | | | $ 1,015 |
| 4.6 Surveillance Support | | | | | |
| Credit or Recovery (Shortfall) (Schedule 2) | | | | | |
| Total | $ 2,196 | $ 3,029 | $ 5,225 | $ 4,210 | |
| **Lapse/(Encumberance)** | | | | | |

(1) As per "Voted Expense by Program" and "Voted Capital Investment by Program" page of 2012-13 Government Estimates

(2) Adjustments include credit or recovery increases approved by Treasury Board and credit or recovery shortfalls.

(3) Actuals exclude non-voted amounts such as donated capital assets, amortization and valuation adjustments.

Schedule 6

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

COMPARISON OF ACTUAL AND BUDGET

YEAR ENDED MARCH 31, 2013

| | Estimate [1] | Actual Voted | Actual Not Voted [2] (in thousands) | Actual Total | Difference |
|---|---|---|---|---|---|
| **EXPENSES** | | | | | |
| **Expense by program** | | | | | |
| Ministry Support Services | $ 17,335 | $ 16,164 | $ 1,077 | $ 17,241 | $ 94 |
| Policy and Environment | 68,474 | 63,310 | 2,395 | 65,705 | 2,769 |
| Rural and Regulatory Services | 19,555 | 24,755 | 27 | 24,782 | (5,227) |
| Industry Development and Food Safety | 138,755 | 129,712 | 3,659 | 133,371 | 5,384 |
| Farm Fuel Distribution Allowance | 28,500 | 35,223 | - | 35,223 | (6,723) |
| Agriculture Insurance and Lending Assistance | 329,365 | 307,601 | - | 307,601 | 21,764 |
| Livestock and Meat Strategy | 31,400 | 30,022 | - | 30,022 | 1,378 |
| | $ 633,384 | $ 606,787 | $ 7,158 | $ 613,945 | $ 19,439 |
| **Expense by fiscal plan category** | | | | | |
| Operating Expense | $ 587,484 | $ 570,945 | $ 490 | $ 571,435 | $ 16,049 |
| Capital Grants and Support | 38,900 | 35,842 | - | 35,842 | 3,058 |
| Amortization of Tangible Capital Assets | 7,000 | - | 6,668 | 6,668 | 332 |
| | $ 633,384 | $ 606,787 | $ 7,158 | $ 613,945 | $ 19,439 |
| **Capital Investment by program** | | | | | |
| Ministry Support Services | $ 1,000 | $ 1,024 | $ 19 | $ 1,043 | $ (43) |
| Policy and Environment | 200 | 972 | - | 972 | (772) |
| Rural and Regulatory Services | - | 5 | - | 5 | (5) |
| Industry Development and Food Safety | 996 | 2,209 | 87 | 2,296 | (1,300) |
| | $ 2,196 | $ 4,210 | $ 106 | $ 4,316 | $ (2,120) |

(1) As per page 41 of 2012-13 Government Estimates.

(2) These amounts are not included in any supply vote either because no cash disbursement is required or because the Legislative Assembly has already provided funding authority pursuant to a statute other than an appropriation act.

Schedule 7

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

LOTTERY FUND ESTIMATES

YEAR ENDED MARCH 31, 2013

| | 2012-13 Lottery Fund Estimates | 2012-13 Actual (in thousands) | Unexpended (Over Expended) |
|---|---|---|---|
| Major Fairs and Exhibitions | $ 21,840 | $ 21,840 | $ - |
| Agricultural Service Boards | 11,600 | 11,562 | 38 |
| Agricultural Societies | 8,670 | 8,670 | - |
| Agriculture Initiatives | 1,450 | 1,450 | - |
| | $ 43,560 | $ 43,522 | $ 38 |

The revenue of the Lottery Fund was transferred to the Department of Treasury Board and Finance on behalf of the General Revenue Fund in 2011-12. Having been transferred to the General Revenue Fund, these monies then become part of the department's supply vote. This table shows details of the initiatives within the department that are funded by the Lottery Fund and compares it to the actual results.

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

SALARY AND BENEFITS DISCLOSURE

YEAR ENDED MARCH 31, 2013

| | 2013 | | | | 2012 |
|---|---|---|---|---|---|
| | Base Salary [1] | Other Cash Benefits [2] | Other Non-Cash Benefits [3] | Total | Total |
| Department | | | | | |
| Deputy Minister[4] | $ 274,105 | 12,651 | 41,627 | $ 328,383 | $ 358,467 |
| Assistant Deputy Ministers | | | | | |
| Policy and Environment | $ 192,152 | 7,390 | 56,179 | $ 255,721 | $ 238,572 |
| Industry Development and Food Safety[5] | $ 132,757 | - | 38,895 | $ 171,652 | $ 234,775 |
| Rural and Regulatory Services | $ 178,067 | 10,958 | 51,356 | $ 240,381 | $ 207,725 |
| Executive Directors | | | | | |
| Human Resources | $ 157,305 | - | 43,822 | $ 201,127 | $ 193,956 |
| Senior Financial Officer[6] | $ 140,872 | 36,759 | 31,396 | $ 209,027 | $ 163,098 |
| Boards and Agencies | | | | | |
| Farmers' Advocate | $ 196,631 | - | 10,340 | $ 206,971 | $ 185,855 |
| General Manager, Agricultural Products Marketing Council | $ 115,621 | 714 | 33,261 | $ 149,596 | $ 173,043 |

Prepared in accordance with Treasury Board Directive 12/98 as amended.

[1] Base salary includes pensionable base pay.

[2] Other cash benefits include vacation payouts and lump sum payments. There were no bonuses paid in 2013.

[3] Other non-cash benefits include government's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans and professional memberships.

[4] Automobile provided, no dollar amount included in other non-cash benefits.

[5] The position was occupied by two individuals at different times during the year.

[6] The position was occupied by three individuals during the year.

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS

YEAR ENDED MARCH 31, 2013
(in thousands)

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include key management personnel in the department.

The department and its employees paid or collected certain taxes and fees set by regulation for premiums, licences and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this schedule.

The department had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

| | Entities in the Ministry | | Other Entities | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues | | | | |
| Grants | $ 1,096 | $ 1,672 | $ - | $ - |
| Other | - | - | 513 | 554 |
| | $ 1,096 | $ 1,672 | $ 513 | $ 554 |
| Expenses - Directly Incurred | | | | |
| Grants | $ 342,701 | $ 318,933 | $ 1,069 | $ 1,067 |
| Other services | - | - | 2,353 | 2,619 |
| | $ 342,701 | $ 318,933 | $ 3,422 | $ 3,686 |
| Tangible Capital Assets Transferred In | | | | |
| Alberta Livestock and Meat Agency | $ 19 | $ - | $ - | $ - |
| | $ 19 | $ - | $ - | $ - |
| Payable to | | | | |
| Agriculture Financial Services Corporation | $ 110,445 | $ 51,605 | $ - | $ - |
| Alberta Livestock and Meat Agency | 8,788 | 7,334 | - | - |
| Ministry of Enterprise and Advanced Education | - | - | 198 | 63 |
| Ministry of Treasury Board and Finance | - | - | 7 | - |
| Legislative Assembly | - | - | 6 | - |
| Ministry of International and Intergovernmental Relations | - | - | 35 | 4 |
| Ministry of Service Alberta | - | - | - | 54 |
| | $ 119,233 | $ 58,939 | $ 246 | $ 67 |
| Receivable from | | | | |
| Agriculture Financial Services Corporation | $ 500 | $ 500 | $ - | $ - |
| Alberta Livestock and Meat Agency | 749 | 1,372 | - | - |
| Ministry of Enterprise and Advanced Education | - | - | 103 | 22 |
| Ministry of International and Intergovernmental Relations | - | - | - | - |
| | $ 1,249 | $ 1,872 | $ 103 | $ 22 |
| Deferred Revenue from | | | | |
| Ministry of Enterprise and Advanced Education | $ - | $ - | $ 439 | $ 128 |
| | $ - | $ - | $ 439 | $ 128 |

The department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements but are disclosed in Schedule 10.

| | Entities in the Ministry | | Other Entities | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 (Restated) |
| Expenses - Incurred by Others | | | | |
| Accommodation | $ - | $ - | $ 24,160 | $ 21,981 |
| Legal | - | - | 1,120 | 998 |
| Other services | - | - | 5,445 | 4,592 |
| | $ - | $ - | $ 30,725 | $ 27,571 |

Note: The Department receives services under contracts managed by the Ministry of Service Alberta. Any commitments under these contracts are reported by the Ministry of Service Alberta.

Schedule 10

DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

ALLOCATED COSTS

YEAR ENDED MARCH 31, 2013
(in thousands)

| | | 2013 Expenses - Incurred by Others | | | | | | | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| Program | Expenses[1] | Accommodation Costs[2] | Legal Services[3] | Service Alberta[4] | Air Services[5] | Corporate Internal Audit Services[6] | Learning Centre[7] | Total Expenses | Total Expenses (Restated) |
| Ministry Support Services | $ 17,241 | $ 2,587 | $ 271 | $ 5,104 | $ 180 | $ 133 | $ 4 | $ 25,520 | $ 21,840 |
| Policy and Environment | $ 65,705 | 6,096 | 100 | - | - | - | 10 | $ 71,911 | $ 78,085 |
| Rural and Regulatory Services | $ 24,782 | 3,037 | 149 | - | - | - | 5 | $ 27,973 | $ 22,791 |
| Industry Development and Food Safety | $ 133,371 | 12,440 | 600 | - | - | - | 19 | $ 146,430 | $ 191,694 |
| Farm Fuel Distribution Allowance | $ 35,223 | - | - | - | - | - | - | $ 35,223 | $ 31,472 |
| Livestock and Meat Strategy | $ 30,022 | - | - | - | - | - | - | 30,022 | $ 29,709 |
| Agriculture Insurance and Lending Assistance | | | | | | | | | |
| Insurance and Lending | $ 247,498 | - | - | - | - | - | - | $ 247,498 | $ 221,675 |
| Income Stabilization | $ 60,103 | - | - | - | - | - | - | $ 60,103 | $ 62,227 |
| | $ 613,945 | $ 24,160 | $ 1,120 | $ 5,104 | $ 180 | $ 133 | $ 38 | $ 644,680 | $ 659,493 |

[1] Expenses - Directly Incurred as per Statements of Operations.
[2] Costs shown for Accommodation on Schedule 9, allocated by budgeted full-time equivalent employment.
[3] Costs shown for Legal Services on Schedule 9, allocated by estimated costs incurred by each program.
[4] Costs shown for Service Alberta on Schedule 9 (Other services), allocated by estimated costs incurred by each program.
[5] Costs shown for Air Transportation on Schedule 9 (Other services), allocated by estimated costs incurred by each program.
[6] Costs shown for Corporate Internal Audit Services on Schedule 9 (Other services), allocated by estimated costs incurred by each program.
[7] Costs shown for Learning Centre on Schedule 9 (Other services), allocated by budgeted full-time equivalent employment.

# AGRICULTURE FINANCIAL SERVICES CORPORATION

FINANCIAL STATEMENTS
Year ended March 31, 2013

Independent Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Cash Flows

Notes to the Financial Statements

Schedule of Operations

Schedule of Salaries and Benefits

AUDITOR GENERAL *Alberta*

# Independent Auditor's Report

To the Board of Directors of the Agriculture Financial Services Corporation

## Report on the Financial Statements

I have audited the accompanying financial statements of Agriculture Financial Services Corporation, which comprise the statement of financial position as at March 31, 2013, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Agriculture Financial Services Corporation as at March 31, 2013, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]
Auditor General

May 30, 2013
Edmonton, Alberta

## AGRICULTURE FINANCIAL SERVICES CORPORATION

## STATEMENT OF FINANCIAL POSITION

### AS AT MARCH 31, 2013
(dollars in thousands)

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 261,039 | $ 277,559 |
| Accounts receivable (Note 3) | 10,877 | 12,081 |
| Due from Government of Alberta | 110,445 | 52,866 |
| Due from Government of Canada | 147,835 | 178,072 |
| Loans receivable (Note 4) | 1,777,381 | 1,601,350 |
| Investments (Note 5) | 1,119,771 | 1,084,846 |
| Tangible capital assets (Note 6) | 45,190 | 46,528 |
| | $ 3,472,538 | $ 3,253,302 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities (Note 7) | $ 22,839 | $ 16,755 |
| Indemnities payable (Note 8) | 202,743 | 189,912 |
| Borrowing from Government of Alberta (Note 9) | 1,808,219 | 1,683,078 |
| Deferred revenue (Note 10) | 27,578 | 12,976 |
| | 2,061,379 | 1,902,721 |
| Net assets at beginning of year | 1,350,581 | 1,048,366 |
| Adjustment to opening net assets (Note 2) | (14,205) | - |
| Net operating results | 74,783 | 302,215 |
| Net assets at end of year | 1,411,159 | 1,350,581 |
| | $ 3,472,538 | $ 3,253,302 |

Contingencies and contractual obligations (Note 12)

The accompanying notes and schedules are part of these financial statements.

Approved by the Board:

Harry Haney, Chair of the Board

Bill Daye, Chair of the Audit Committee

Brad Klak, President and Managing Director

## AGRICULTURE FINANCIAL SERVICES CORPORATION

## STATEMENT OF OPERATIONS

## YEAR ENDED MARCH 31, 2013

(dollars in thousands)

| | 2013 | | 2012 |
|---|---|---|---|
| | Budget | Actual (Schedule 1) | Actual |
| Revenues: | | | |
| Premiums from insured persons | $ 272,996 | $ 314,114 | $ 283,147 |
| Interest | 96,020 | 80,485 | 79,269 |
| Contribution from Government of Alberta | 329,365 | 306,878 | 285,278 |
| Contribution from Government of Canada | 292,294 | 245,737 | 237,470 |
| Investment income | 34,159 | 30,598 | 29,067 |
| Fees and other income | 15,231 | 24,189 | 15,574 |
| | 1,040,065 | 1,002,001 | 929,805 |
| Expenses: | | | |
| AgriInsurance | 372,247 | 616,863 | 372,649 |
| Agriculture Income Support | 226,288 | 112,142 | 123,274 |
| Lending | 115,244 | 103,987 | 90,244 |
| Hail Insurance | 42,302 | 64,111 | 30,934 |
| Livestock Insurance | 6,298 | 24,859 | 4,725 |
| Wildlife Damage Compensation | 8,984 | 5,256 | 5,764 |
| | 771,363 | 927,218 | 627,590 |
| Net operating results | $ 268,702 | $ 74,783 | $ 302,215 |

The accompanying notes and schedules are part of these financial statements.

## AGRICULTURE FINANCIAL SERVICES CORPORATION

## STATEMENT OF CASH FLOWS

## YEAR ENDED MARCH 31, 2013

(dollars in thousands)

| | 2013 | 2012 |
|---|---|---|
| Operating activities: | | |
| Net operating results | $ 74,783 | $ 302,215 |
| Non-cash items included in operating results | | |
| Amortization of capital assets | 8,582 | 8,167 |
| Amortization of premiums and discounts | 5,694 | 3,973 |
| Allowance for doubtful accounts and for losses | 10,102 | 10,162 |
| Gain on sale of investments | (2,972) | (3,043) |
| Gain on disposal of capital assets | (46) | (1) |
| Changes in assets and liabilities relating to operations | (7,259) | (124,979) |
| Net cash provided by operating activities[1] | 88,884 | 196,494 |
| Investing activities: | | |
| Proceeds from repayments of loans receivable | 316,571 | 242,117 |
| Loan disbursements | (502,915) | (451,409) |
| Purchase of investments | (524,675) | (750,631) |
| Proceeds on disposal of investments | 483,866 | 367,265 |
| Net cash utilized by investing activities | (227,153) | (592,658) |
| Capital activities: | | |
| Purchase of tangible capital assets | (7,244) | (5,546) |
| Proceeds on disposal of tangible capital assets | 46 | 128 |
| Net cash utilized by capital activities | (7,198) | (5,418) |
| Financing activities: | | |
| Borrowing from the Government of Alberta | 355,000 | 775,721 |
| Repayment of borrowing from the Government of Alberta | (226,053) | (464,425) |
| Net cash provided by financing activities | 128,947 | 311,296 |
| Net decrease in cash during the year | (16,520) | (90,286) |
| Cash at beginning of year | 277,559 | 367,845 |
| Cash at end of year | $ 261,039 | $ 277,559 |

(1) Net cash provided by operating activities includes $68,397 (2012 $57,209) of interest paid.

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2013

(dollars in thousands)

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12 RSA 2000.

The Corporation provides income stabilization, disaster assistance, AgriInsurance, livestock price insurance and loans and guarantees to primary agriculture producers in Alberta. Loans and guarantees are also provided to commercial Alberta businesses.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAB).

Adoption of new Accounting Standards:

Effective April 1, 2012 the Corporation adopted PS 3450, Financial Instruments. No adjustment to financial assets and liabilities was required. These statements do not present a Statement of Re-measurement Gains and Losses as the Corporation has no re-measurement gains or losses.

In addition, effective April 1, 2012 the Corporation adopted PS 3410, Government Transfers. As a result, the Corporation changed its policy for recording contributions received from the Federal and Provincial governments that are restricted for the acquisition of tangible capital assets. Previously, restricted capital contributions were recorded as revenue when the tangible capital assets were acquired. As a result of this policy change, restricted capital contributions are recognized as deferred revenue upon receipt and transferred to revenue over the useful life of capital assets. This policy has been adopted retroactively without restatement of comparatives. As a result, the opening net assets have decreased by $14,205.

(a) Cash

Cash consists of bank balances. Interest is earned on bank balances as part of funds managed by the Government of Alberta and is included in investment income.

(b) Loans Receivable and Allowances for Doubtful Accounts and for Losses

Loans are recorded at the lower of cost and net recoverable value. Amounts included in the cost of loan receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs.

The Corporation records valuation allowances to reduce the cost of impaired loans to their net realizable value. A loan is classified as impaired when collection of principal and interest is no longer reasonably assured. Two types of allowances are established for loans receivable.

Specific allowance – a specific allowance is established after a loan-by-loan review of accounts meeting prescribed criteria indicative of a potential deterioration in the credit quality of debt. The specific allowance for each loan is determined as the difference between the loan principal amount outstanding and the discounted net present value of the related security net of the cost of realization. Changes in net realizable value of security subsequent to the recording of the initial allowance are adjusted through the specific allowance.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(b) Loans Receivable and Allowances for Doubtful Accounts and for Losses (continued)

General allowance – two types of general allowance are recorded. The first type is for estimated potential losses relating to a deterioration in the full recoverability of individual loan accounts which have not yet met management's criteria for setting up a specific allowance at the balance sheet date. A methodology is applied to determine the Corporation's risk exposure to potential losses on individual loan accounts not subject to a specific allowance. The second type is for the aggregate amount owing for individual loans under a specific program or industry sector or a geographical area. In determining the allowance management considers economic and market conditions and uncertainties affecting recoverability of such loans.

Loans are written off against the related allowance for doubtful accounts and for losses if there is no realistic prospect of future recovery. Any recovery of amounts previously written off is recognized on receipt of proceeds.

Concessionary Loans and Loan Discounts

A loan is considered to have concessionary terms when at inception of the loan, the net present value of expected future cash flows is less than present book value. Book values of concessionary loans are reduced to their net present values by loan discounts expensed in the year in which loans are disbursed and amortized to interest revenue over the period of the concessionary term in proportion to loan repayments received.

(c) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments; then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the effective interest rate method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(d) Tangible Capital Assets including Capital Leases

Tangible capital assets of the Corporation are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. An asset acquired, other than computer software, with a life of more than one year and a cost of $5 or more is capitalized. Computer software acquired from external sources at a cost of $100 or more and software developed by the Corporation costing $500 or more are capitalized.

Leases that, from the point of view of the lessee, transfer substantially all the benefits and risks incidental to the ownership of the asset to the Corporation are considered capital leases. These are accounted for as an asset and an obligation. Capital lease obligations are recorded at the present value of the minimum lease payments excluding executor costs. The discount rate used to determine the present value of the lease payments is the Corporations incremental borrowing rate.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(e) Borrowing from Government of Alberta

Borrowing is carried at amortized cost. Premiums and discounts on borrowing are amortized to interest expense using the effective yield method over the period to maturity.

(f) Financial Instruments

AFSC's financial instruments include cash, receivables, loans receivable, investments, accounts payable and accrued liabilities, indemnities payable, borrowing from the Government of Alberta and deferred revenue. All Financial instruments are held at cost or amortized cost. The effective interest method is used to recognize interest income or expense. Transaction costs related to all financial instruments are expensed as incurred.

Fair values of loans receivable are not disclosed. Loans receivable consists of developmental loans with uncommon terms such as interest rate rebates/incentives, concessionary interest rates, prepayment (in part or full) with no penalties applicable to all loans, fixed interest rates with longer terms and loans with relatively higher financial risks. Determining the fair values of loans receivable with sufficient reliability is not practical due to the absence of verifiable information from established financial markets for such loans.

(g) Measurement Uncertainty

There is an inherent degree of uncertainty associated with the measurement of certain amounts recognized or disclosed in the financial statements. In the preparation of the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, net assets and related disclosures. Estimates of material amounts relate to Indemnities payable and Allowances for doubtful accounts and for losses on Accounts receivable and Loans receivable. Accordingly, actual results could differ from these and other estimates thereby impacting future financial statements. Disclosure of the nature and circumstances giving rise to the uncertainty, have been disclosed in the relevant notes in the financial statements (See Notes 3, 4 and 8).

(h) Revenue Recognition

Premiums from insured persons are recorded as revenue when earned over the insurance policy contract term for AgriInsurance, Livestock Price and Hail Insurance programs. A corresponding premium contribution from the Governments of Canada and Alberta is also recognized on policies sold under the AgriInsurance programs and is included in Contributions from the Governments of Canada and Alberta. Premiums received by the Corporation in advance of the related policy term are recorded as deferred revenue until earned.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(h) Revenue Recognition (continued)

Contributions from the Governments of Canada and Alberta for estimated compensation payments to participants under Agriculture Income Support Programs such as AgriStability (formerly the Canadian Agriculture Income Stabilization (CAIS)), AgriInvest, AgriRecovery and Wildlife Damage Compensation are recognized in the period in which the program payments to producers are determinable. Overpayments of compensation payments under the AgriStability program are recovered through repayment or the reduction of future eligible payments under the program or other programs administered by the Corporation. Overpayments are repayable to the Governments of Canada and Alberta.

Contributions received from the Governments of Canada and Alberta that are restricted for the acquisition of tangible capital assets are recognized as deferred revenue when received and recognized as revenue over the useful life of the acquired tangible capital assets.

Interest income on loans receivable is recognized as earned over the period of loan repayment except for impaired loans. At the date impairment is assessed, arrears of interest is derecognized and is not accrued until the loan reverts to performing status or is terminated. When an impaired loan is reverted to performing status, interest is accrued and recognized from the date of change in status of the loan. Interest previously unrecognized is recognized only when payment is received.

Investment income is recognized in the period in which the income is earned. Gains or losses on the value on investments are recognized when realized on disposition.

Fees which are primarily from lending activities and AgriStability applications are recognized on processing of the related application. AgriStability program application fees received in advance of the program commencement date are recorded as deferred revenue until earned.

(i) AgriStability, AgriInvest and AgriRecovery Program

Payments under the programs to participants, administration expenses and corresponding contributions from the Governments of Canada and Alberta are recorded at 100% for AgriStability and AgriRecovery programs because the programs are delivered by the Corporation and at 40% for AgriInvest program because the program is delivered by Agriculture and Agri-Food Canada.

(j) Reinsurance

The Corporation carries reinsurance to cover AgriInsurance risks through two levels of government. Two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. The Government of Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the AgriInsurance net assets of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement between the Governments of Canada and Alberta (see Note 15).

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(j) Reinsurance (continued)

In addition, the Corporation carries reinsurance through private reinsurance companies for AgriInsurance and Hail insurance programs. Amounts recoverable from private reinsurers on premiums and indemnities are recorded in Accounts receivable.

Reinsurance recoveries are reported gross; they are included in fees and other revenue. Reinsurance expenses are reported at gross amounts and are separately disclosed in Schedule 1.

(k) AgriInsurance Net Assets Balance Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, amounts in the AgriInsurance net assets are restricted for AgriInsurance purposes only.

(l) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements are comprised of the cost of employer contributions for the current year service of employees.

(m) Transactions with Related Parties

The Government of Alberta significantly influences the programs delivered by the Corporation and is a major contributor to the funding of the programs. Therefore, the Government is considered a related party. All related party transactions with the Government of Alberta have been recorded at the exchange amount which is the consideration paid or received as agreed to by the related party (see Note 14).

(n) Net Assets / Net Liabilities

Net assets / net liabilities represents the difference between the carrying value of assets held by the Corporation and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The Corporation operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

(dollars in thousands)

Note 3 Accounts Receivable

| | 2013 | 2012 |
|---|---|---|
| AgriStability & Canadian Agricultural Income Stabilization (CAIS) programs: | | |
| Overpayments | $ 19,361 | $ 21,106 |
| Administration fees | 613 | 870 |
| Premiums from insured persons | | |
| AgriInsurance program | 7,368 | 9,021 |
| Hail insurance program | 196 | 402 |
| Other | 3,226 | 2,293 |
| | 30,764 | 33,692 |
| Allowances for doubtful accounts | | |
| At beginning of year | (21,611) | (19,104) |
| Decrease (increase) for this year | 1,469 | (3,156) |
| Write offs, net of recoveries | 255 | 649 |
| At end of year | (19,887) | (21,611) |
| | $ 10,877 | $ 12,081 |

Included in the allowances for doubtful accounts is $19,361 (2012 $21,106) representing the amount of overpayments under AgriStability and CAIS programs in recognition of the Corporation's role as an agent for collection. Also included in the allowances is $526 (2012 $505) for premiums from insured persons. The allowance for doubtful accounts is subject to measurement uncertainty as it is an estimate based on management's assessment of collectability of outstanding balance. Actual write-offs realized in future periods could be materially different from management's estimates.

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 4 Loans Receivable

Loans receivable are comprised of the following:

| | 2013 | | | 2012 |
|---|---|---|---|---|
| | Farm | Commercial | Total | Total |
| Performing loans - non concessionary | $ 1,349,231 | $ 396,309 | $ 1,745,540 | $ 1,567,244 |
| Performing loans - concessionary | 10,373 | - | 10,373 | 15,128 |
| Impaired loans | 6,564 | 27,223 | 33,787 | 27,914 |
| | 1,366,168 | 423,532 | 1,789,700 | 1,610,286 |
| Accrued interest | 23,368 | 1,831 | 25,199 | 25,427 |
| Loan discount | (126) | - | (126) | (195) |
| | 1,389,410 | 425,363 | 1,814,773 | 1,635,518 |
| Allowances | (14,255) | (23,137) | (37,392) | (34,168) |
| Net carrying value | $ 1,375,155 | $ 402,226 | $ 1,777,381 | $ 1,601,350 |

Impaired loans balance includes $1,480 (2012 $1,222) for properties held for sale acquired as a result of foreclosure actions.

All loans have fixed interest rates for the term of loan or renewal period.

Loans have blended repayments during the term. Loans can be repaid in full or part during the term without any penalty.

Allowances for doubtful accounts for loans are as follows:

| | Farm | Commercial | 2013 | 2012 |
|---|---|---|---|---|
| At beginning of year | $ 14,797 | $ 19,371 | $ 34,168 | $ 30,680 |
| Increase (decrease) for the year | (374) | 11,943 | 11,569 | 7,056 |
| Write-offs | (168) | (8,177) | (8,345) | (3,568) |
| At end of year | $ 14,255 | $ 23,137 | $ 37,392 | $ 34,168 |
| Specific allowance | $ 2,351 | $ 15,096 | $ 17,447 | $ 13,742 |
| General allowance | 11,904 | 8,041 | 19,945 | 20,426 |
| | $ 14,255 | $ 23,137 | $ 37,392 | $ 34,168 |

Valuation allowances of receivables are based on management's best estimate. Actual losses realized may vary significantly from management's estimate.

Loans receivable are secured by tangible assets consisting predominantly of land followed by buildings, equipment and other assets. The estimated values of such assets are $3,326,428 (2012 $2,956,675).

Note 4 Loans Receivable (continued)

The composition of the Loans receivable balance by range of effective annual interest rates is as follows:

| | 2013 | 2012 |
|---|---|---|
| Effective annual Interest Rate | | |
| Less than 2% | $ 75,733 | $ 49,486 |
| 2.01% to 3.00% | 159,931 | 99,198 |
| 3.01% to 4.00% | 389,715 | 254,903 |
| 4.01% to 5.00% | 460,190 | 488,066 |
| 5.01% to 6.00% | 327,593 | 289,792 |
| 6.01% to 7.00% | 299,276 | 302,989 |
| 7.01% to 8.00% | 87,167 | 122,862 |
| Over 8% | 15,168 | 28,222 |
| Allowance for doubtful accounts | (37,392) | (34,168) |
| | $ 1,777,381 | $ 1,601,350 |
| Weighted average annual interest rate | 4.67% | 4.99% |

Note 5 Investments

| | 2013 | 2012 |
|---|---|---|
| Bonds and debentures: | | |
| Government of Canada, direct and guaranteed | $ 516,450 | $ 489,677 |
| Other provincial, direct and guaranteed | 180,011 | 304,425 |
| | 696,461 | 794,102 |
| Corporate securities: | | |
| Asset backed securities, AAA rated | 222,665 | 238,936 |
| Senior bank notes | 193,872 | 44,928 |
| | 416,537 | 283,864 |
| | 1,112,998 | 1,077,966 |
| Accrued interest | 6,773 | 6,880 |
| | $ 1,119,771 | $ 1,084,846 |

The fair value of investments at March 31, 2013 is $1,132,523 (2012 $1,091,768). Fair value is based on quoted market prices excluding accrued interest.

(dollars in thousands)

Note 5 Investments (continued)

The following provides a breakdown of the investment portfolio by term to maturity.

| | Term to Maturity [1] | | | | |
|---|---|---|---|---|---|
| | Within 1 Year | 1 to 5 Years | 6 to 10 Years | 2013 | 2012 |
| Bonds and debentures | $ 272,214 | $ 387,494 | $ 36,753 | $ 696,461 | $ 794,102 |
| Yield [2] | 1.05% | 1.41% | 1.93% | 1.30% | 1.53% |
| Corporate Securities | - | 416,537 | - | 416,537 | 283,864 |
| Yield [2] | - | 1.73% | - | 1.73% | 2.29% |
| | 272,214 | 804,031 | 36,753 | 1,112,998 | 1,077,966 |
| Accrued interest | 1,401 | 5,036 | 336 | 6,773 | 6,880 |
| | $ 273,615 | $ 809,067 | $ 37,089 | $1,119,771 | $1,084,846 |

[1] Term to maturity classifications are based on contractual maturity date of the security.

[2] Yield represents the rate which discounts future cash receipts to the carrying amount.

Note 6 Tangible Capital Assets

| | Land | Building | Furniture and Fixtures | Computer Equipment and Software | | |
|---|---|---|---|---|---|---|
| Estimated Useful Life | Indefinite | 25 - 40 years | 5 - 10 years | 2 - 10 years | 2013 | 2012 |
| Cost | | | | | | |
| At beginning of year | $ 347 | $ 9,987 | $ 7,561 | $ 83,575 | $ 101,470 | $ 96,593 |
| Additions | - | - | 264 | 6,980 | 7,244 | 5,546 |
| Disposals | - | - | (6) | (1,215) | (1,221) | (670) |
| | 347 | 9,987 | 7,819 | 89,340 | 107,493 | 101,469 |
| Accumulated amortization | | | | | | |
| At beginning of year | - | 3,973 | 4,252 | 46,717 | 54,942 | 47,318 |
| Amortization expense | - | 363 | 319 | 7,900 | 8,582 | 8,167 |
| Disposals | - | - | (6) | (1,215) | (1,221) | (544) |
| | - | 4,336 | 4,565 | 53,402 | 62,303 | 54,941 |
| Net book value at March 31, 2013 | $ 347 | $ 5,651 | $ 3,254 | $ 35,938 | $ 45,190 | |
| Net book value at March 31, 2012 | $ 347 | $ 6,015 | $ 3,309 | $ 36,857 | | $ 46,528 |

Computer equipment and software costs include $4,656 (2012 $1,752) of costs incurred that are not amortized because they are still in the development stage.

## Note 7 Accounts Payable and Accrued Liabilities

| | 2013 | 2012 |
|---|---|---|
| Supplies and services | $ 15,348 | $ 10,026 |
| Salaries, wages and employee benefits | 6,281 | 5,932 |
| Reinsurance Premiums to Government of Canada | 543 | 797 |
| Other | 667 | - |
| | $ 22,839 | $ 16,755 |

## Note 8 Indemnities Payable

| | 2013 (Note 2(i)) | 2012 (Note 2(i)) |
|---|---|---|
| AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs | | |
| Current claim year | $ 131,419 | $ 127,523 |
| Prior claim years | 36,713 | 45,452 |
| | 168,132 | 172,975 |
| AgriInsurance | 25,955 | 14,627 |
| Livestock price insurance | 6,363 | 1,566 |
| Wildlife compensation | 1,315 | 731 |
| Hail insurance | 978 | 13 |
| | $ 202,743 | $ 189,912 |

Estimated indemnities payable of $202,743 and corresponding contributions and receivables from the Governments of Canada and Alberta are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for AgriStability and AgriInvest program are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of $93,734 to $156,094.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on potential payments for claims not yet processed.

Indemnities for Livestock Price Insurance Program are based on estimated payments using forward contract prices applicable to policies sold during the fiscal year with settlement dates beyond the end of fiscal year.

Note 9 Borrowing from Government of Alberta

All borrowings from the Government of Alberta bear interest rates which are fixed for the term of the borrowing. Repayment of principal is on maturity with the exception of a small number of borrowings which require blended repayments during the term.

The composition of outstanding borrowing from the Government of Alberta by range of effective annual interest rate is as follows:
Principal repayments due in each of the next five years and thereafter are as follows:

| | 2013 | 2012 |
|---|---|---|
| Effective annual Interest Rate | | |
| Less than 2% | $ 383,000 | $ - |
| 2.01% to 3.00% | 734,238 | 208,000 |
| 3.01% to 4.00% | 574,751 | 734,238 |
| 4.01% to 5.00% | 99,027 | 594,751 |
| 5.01% to 6.00% | - | 125,080 |
| | 1,791,016 | 1,662,069 |
| Accrued interest | 14,266 | 14,753 |
| Unamortized premium | 2,937 | 6,256 |
| | $ 1,808,219 | $ 1,683,078 |
| Weighted average annual interest rate | 3.98% | 4.07% |

| | | |
|---|---|---|
| Year ending March 31, | 2014 | $ 83,393 |
| | 2015 | 45,479 |
| | 2016 | 108,642 |
| | 2017 | 65,506 |
| | 2018 | 68,780 |
| | Thereafter | 1,419,216 |
| | | $ 1,791,016 |

The estimated fair value of borrowings as at March 31, 2013 is $1,945,413 (2012 $1,793,700). Fair value is an approximation of market value to the holder.

Note 10 Deferred Revenue

| | 2013 | 2012 |
|---|---|---|
| Premiums from insured persons | $ 6,939 | $ 8,215 |
| AgriStability Fees | 4,627 | 4,761 |
| Restricted capital contributions | 16,012 | - |
| | $ 27,578 | $ 12,976 |

Premiums from insured persons represent premiums received from producers for AgriInsurance programs. AgriStability fees represents fees collected for the program relating to the next fiscal year. Restricted capital contributions represent contributions received from the Federal and Provincial governments that are restricted for the acquisition of tangible capital assets.

Note 11 Pensions

The Corporation participates in the multi-employer Alberta Management Employees Pension Plan and the Alberta Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Alberta Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $5,479 for the year ended March 31, 2013 (2012 $4,677).

At December 31, 2012, the Alberta Management Employees Pension Plan reported a deficiency of $303,423 (2011 deficiency $517,726) and the Alberta Public Service Pension Plan reported a deficiency of $1,645,141 (2011 deficiency $1,790,383). At December 31, 2012, the Supplementary Retirement Plan for Alberta Public Service Managers had a deficiency of $51,870 (2011 deficiency $53,489). The Corporation's share of these pension plans' deficiency is not determinable.

Note 12 Contingencies and Contractual Obligations

Contingent Liability

| | 2013 | 2012 |
|---|---|---|
| Loan guarantees | $ 1,944 | $ 5,620 |
| Less allowances for losses | (150) | (150) |
| | 1,794 | 5,470 |
| Legal actions | 397 | 397 |
| Total contingencies | $ 2,191 | $ 5,867 |

In the normal course of operations, the Corporation enters into agreements which may contain features that meet the definition of a loan guarantee. The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the Corporation.

The Corporation is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities. Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate.

Note 12 Contingencies and Contractual Obligations (continued)

The Corporation has been named in one (2012 one) claim of which the outcome is not determinable. For this claim, there are specified amounts totaling $397 (2012 $397). The resolution of the indeterminable claim may result in a liability, if any, that may be significantly lower than the claimed amount.

Contractual Obligations

| | 2013 | 2012 |
|---|---|---|
| Approved, undisbursed loans | $ 153,436 | $ 127,041 |
| Reinsurance | 25,441 | 23,723 |
| Operating leases | 3,609 | 2,372 |
| Total commitments | $ 182,486 | $ 153,136 |

The operating lease contractual obligations are for accommodations with terms up to five years.

Note 13 Financial Instruments and Financial Risk Management

Financial instruments comprise the majority of AFSC's assets and liabilities. AFSC is exposed to credit, interest and liquidity risks in respect to its use of financial instruments.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, resulting in a loss to the Corporation.

AFSC's maximum possible exposure to credit risk is as follows:

| | 2013 | 2012 |
|---|---|---|
| Loans receivable | $1,777,381 | $1,601,350 |
| Investments | 1,119,771 | 1,084,846 |
| Due from Government of Canada | 147,835 | 178,072 |
| Due from Government of Alberta | 110,445 | 52,866 |
| Accounts receivable | 10,877 | 12,081 |
| Loan guarantees | 1,944 | 5,620 |
| Total commitments | $3,168,253 | $2,934,835 |

Loans receivable - Security requirements for a loan or guarantee depend on the risk involved in each individual operation. Adequate security is required for new and emerging businesses as well as for enterprises needing specialized or customized equipment. To mitigate credit risk, lending staff monitor loan accounts continually to ensure prompt response to any financial difficulties customers may encounter.

Note 13 Financial Instruments and Financial Risk Management (continued)

Investments - AFSC invests surplus funds generated by Production and Hail Insurance operations. To decrease the risk of loss of investment, the majority of funds are invested in bonds of federal or provincial governments or securities of corporations that have superior credit ratings. The investments are managed by Alberta Investment Management Corporation, an Alberta Crown Corporation. AFSC also invests in asset-backed securities (AAA rating) and senior bank notes (A rating and higher). Both of these investments consist of securities with relatively low levels of risk.

Due from the Government of Alberta and the Government of Canada – AFSC is not exposed to significant credit risk as payment in full is typically collected when due.

Accounts receivable - Payments to some CAIS/AgriStability participants resulted in overpayments when information provided to AFSC by participants proved to be incorrect or not supported. This creates a risk of potential non-repayment of the overpayments. The Corporation may set off overpayments against any payments to customers.

AFSC provides insurance coverage on crops, effective at the acceptance of the customer's application for insurance, with or without payment of premiums in full. Non-collection of outstanding insurance premiums is a risk. To minimize this risk, a discount is offered for early payment of insurance premiums and arrangements made for a payment schedule for all customers not taking advantage of the discount. Insurance staff closely monitors outstanding premiums and promptly take collection action when required.

The following breakdown of the Loans receivable provides an indication of the concentration of credit risk in the loan portfolio. Further information is provided throughout these statements which disclose other concentrations of credit risk.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Dollar | Percentage | Dollar | Percentage |
| Loans receivable by individual sector: | | | | |
| Grain and Oilseeds | $ 832,017 | 47% | $ 750,021 | 47% |
| Cattle | 442,863 | 25% | 408,455 | 26% |
| Accommodations and Other Services | 110,349 | 6% | 77,447 | 5% |
| Manufacturing | 87,934 | 5% | 85,826 | 5% |
| Trade - Retail and Wholesale | 69,063 | 4% | 61,187 | 4% |
| Other Livestock | 66,545 | 4% | 67,168 | 4% |
| Commercial and Industrial | 52,096 | 3% | 47,918 | 3% |
| Transportation and Warehousing | 33,598 | 2% | 25,134 | 1% |
| Professional Services | 26,055 | 1% | 30,864 | 2% |
| Other | 94,253 | 5% | 81,498 | 5% |
| Allowance | (37,392) | -2% | (34,168) | -2% |
| | $ 1,777,381 | 100% | $ 1,601,350 | 100% |

Note 13 Financial Instruments and Financial Risk Management (continued)

Interest Rate Risk

Interest rate risk is the impact future changes in interest rates have on cash flows and fair values of financial assets and liabilities. AFSC's interest rate exposure relates to investments, loans receivable, and borrowing from the Government of Alberta.

Investments – Interest rate risk on investments is mitigated by AFSC's Investment Policy for surplus funds. The investment policy is approved by the Board of Directors and compliance with the policy is reported to the Board Audit Committee at least twice a year. Duration of investments are set to match management's best estimate of when investments may be needed to be liquidated to meet financial commitments.

Loans receivables – Loans receivable balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. The Corporation allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or in full prior to the contractual maturity date. Impact of interest rate changes on performance of loan portfolio and cash flows could be significant as a result of changes in market interest rates and borrower's repayment preferences.

Borrowing from the Government of Alberta - The interest rates on borrowings are fixed until maturity. For a vast majority of borrowings, principal repayments are due in full on maturity date with no prepayment option. The Government of Alberta provides an annual contribution to the Corporation that includes an amount to bridge the gap between interest revenue from the loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

The following position of the Corporation's loan portfolio and borrowing provides additional information on interest rate risk.

| | Scheduled Repayment[1] | | | | Not[2] Interest Rate Sensitive | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| | Within 1 Year | 1 to 5 Years | 6 to 10 Years | Over 10 Years | | Total | Total |
| Loan balances | $ 168,575 | $ 545,399 | $ 505,968 | $ 558,324 | $ (885) | $ 1,777,381 | $ 1,601,350 |
| Yield | 4.74% | 4.68% | 5.18% | 4.21% | - | 4.77% | 4.86% |
| Borrowing from Government of Alberta | $ 83,393 | $ 288,407 | $ 652,064 | $ 767,152 | $ 17,203 | $ 1,808,219 | $ 1,683,078 |
| Yield[3] | 3.91% | 3.85% | 3.68% | 3.20% | - | 3.72% | 3.88% |
| Net gap | $ 85,182 | $ 256,992 | $ (146,096) | $ (208,828) | $ (18,088) | $ (30,838) | $ (81,728) |

(1) For loan balances, scheduled repayments of principal are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For borrowing from the Government of Alberta, scheduled repayments reflect contractual repayment of principal.

(2) Includes specific and general allowance, accrued interest and unamortized loan discount.

(3) Yield represents the rate which discounts future cash receipts to the carrying amount.

Note 13 Financial Instruments and Financial Risk Management (continued)

Liquidity Risk

Liquidity risk relates to AFSC's ability to access sufficient funds to meet its financial commitments.

AFSC's primary liquidity risk relates to its liability for insurance claims. Insurance claims are funded firstly with current year premiums collected, which normally exceeds cash requirements. In addition, the investment portfolio of surplus funds in insurance operations is structured in such a way that a portion of the portfolio is accessible at short notice to fund claim payments. The Corporation also carries private sector reinsurance for AgriInsurance and Hail Insurance providing significant protection against catastrophic losses. If all of the above are exhausted, the AgriInsurance program has a reinsurance agreement with the Government of Canada and the Government of Alberta to provide additional funding for claim payments. Additionally, the Corporation has access to advances from the Government of Alberta to meet short-term cash flow needs.

Note 14 Related Party Transactions

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include management in the Corporation.

The Corporation had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

| | 2013 | 2012 |
|---|---|---|
| Revenues: | | |
| Grants | $ 302,065 | $ 284,023 |
| Other | 4,813 | 1,255 |
| | $ 306,878 | $ 285,278 |
| Expenses: | | |
| Accommodation | $ 799 | $ 819 |
| Other services | 1,579 | 1,411 |
| Interest | 66,157 | 57,472 |
| | $ 68,535 | $ 59,702 |
| Payable to: | | |
| Ministry of Agriculture and Rural Development | $ 500 | $ 500 |
| Ministry of Finance | 1,808,219 | 1,683,078 |
| Ministry of Service Alberta | 4 | 8 |
| Receivable from: | | |
| Ministry of Agriculture and Rural Development | 110,445 | 51,610 |
| Ministry of Municipal Affairs | - | 1,255 |
| Deferred Revenue from: | | |
| Ministry of Agriculture and Rural Development | 6,405 | - |
| | $ 1,925,573 | $ 1,736,451 |

AGRICULTURE FINANCIAL SERVICES CORPORATION

(dollars in thousands)

Note 15 Crop Reinsurance Funds

The contributions, withdrawals and accumulated net asset positions of the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta are as follows (see Note 2(j)):

| | AgriInsurance Reinsurance Fund of Alberta | | AgriInsurance Reinsurance Fund of Canada for Alberta | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Opening net assets | $ 27,549 | $ 24,967 | $ 28,226 | $ 25,644 |
| Contributions | 2,830 | 2,582 | 2,830 | 2,582 |
| Closing net assets | $ 30,379 | $ 27,549 | $ 31,056 | $ 28,226 |

The net assets balance in Crop Reinsurance fund of Alberta is consolidated in AgriInsurance Fund in Schedule 1.

Note 16 Comparative Figures

The 2012 figures have been reclassified where necessary to conform to 2013 presentation.

Schedule 1

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2013
(dollars in thousands)

| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | AgriInsurance Note 2(k) | AgriInsurance Note 2(k) | Agriculture Income Support | Agriculture Income Support | Lending | Lending | Hail Insurance | Hail Insurance | Livestock Insurance | Livestock Insurance | Wildlife Damage Compensation | Wildlife Damage Compensation | Total | Total |
| Revenues: | | | | | | | | | | | | | | |
| Premiums from insured persons | $ 259,074 | $ 238,987 | $ - | $ - | $ - | $ - | $ 46,549 | $ 42,989 | $ 8,491 | $ 1,171 | $ - | $ - | $ 314,114 | $ 283,147 |
| Interest | 442 | 553 | 662 | 892 | 79,298 | 77,719 | 77 | 104 | 6 | 1 | - | - | 80,485 | 79,269 |
| Contribution from Government of Alberta | 225,959 | 209,619 | 59,867 | 62,227 | 18,481 | 8,815 | - | - | 1,898 | 1,766 | 2,673 | 2,851 | 308,878 | 285,278 |
| Contribution from Government of Canada | 205,379 | 188,785 | 37,783 | 45,992 | - | - | - | - | - | - | 2,575 | 2,693 | 245,737 | 237,470 |
| Investment income | 28,594 | 26,824 | 629 | 1,176 | 1,161 | 1,074 | 245 | 185 | (23) | 28 | (8) | (220) | 30,598 | 29,067 |
| Fees and other income | 64 | 10 | 11,734 | 11,492 | 3,047 | 2,837 | 9,065 | 430 | 233 | 700 | 46 | 105 | 24,189 | 15,574 |
| | 719,512 | 664,778 | 110,675 | 121,779 | 99,987 | 90,445 | 55,936 | 43,708 | 10,605 | 3,666 | 5,286 | 5,429 | 1,002,001 | 929,805 |
| Expenses: | | | | | | | | | | | | | | |
| Indemnities | 552,193 | 315,791 | 92,019 | 99,077 | - | - | 58,506 | 25,512 | 22,623 | 2,263 | 4,614 | 5,195 | 729,955 | 447,838 |
| Salaries, wages and employee benefits | 22,987 | 19,532 | 13,229 | 13,274 | 17,448 | 17,854 | 1,225 | 914 | 1,225 | 1,163 | 374 | 245 | 56,488 | 52,982 |
| Supplies and services | 11,482 | 10,022 | 5,841 | 5,877 | 5,567 | 5,090 | 1,880 | 1,815 | 585 | 477 | 241 | 208 | 25,596 | 23,289 |
| Amortization of tangible capital assets | 2,152 | 1,889 | 2,555 | 2,507 | 2,683 | 2,572 | 739 | 761 | 426 | 408 | 27 | 30 | 8,582 | 8,167 |
| Interest | - | - | - | - | 66,719 | 57,722 | - | - | - | - | - | - | 66,719 | 57,722 |
| Reinsurance | 27,966 | 25,171 | - | - | - | - | 1,810 | 1,845 | - | 414 | - | - | 29,776 | 27,430 |
| Allowance for doubtful accounts and for losses (Note 3 & 4) | 83 | 244 | (1,502) | 2,739 | 11,570 | 7,006 | (49) | 87 | - | - | - | 86 | 10,102 | 10,162 |
| | 616,863 | 372,649 | 112,142 | 123,274 | 103,987 | 90,244 | 64,111 | 30,934 | 24,859 | 4,725 | 5,256 | 5,764 | 927,218 | 627,590 |
| Net operating results | 102,649 | 292,129 | (1,467) | (1,495) | (4,000) | 201 | (8,175) | 12,774 | (14,254) | (1,059) | 30 | (335) | 74,783 | 302,215 |
| Net assets at beginning of year | 1,239,041 | 946,912 | 11,778 | 13,273 | 71,015 | 70,814 | 24,254 | 11,480 | 3,029 | 4,088 | 1,464 | 1,799 | 1,350,581 | 1,048,366 |
| Adjustment to opening net assets (Note 2) | (8,954) | | (5,146) | - | - | - | - | - | - | - | (105) | - | (14,205) | - |
| Adjusted net assets at beginning of year | 1,230,087 | 946,912 | 6,632 | 13,273 | 71,015 | 70,814 | 24,254 | 11,480 | 3,029 | 4,088 | 1,359 | 1,799 | 1,336,376 | 1,048,366 |
| Net assets at end of year | $ 1,332,736 | $ 1,239,041 | $ 5,165 | $ 11,778 | $ 67,015 | $ 71,015 | $ 16,079 | $ 24,254 | $ (11,225) | $ 3,029 | $ 1,389 | $ 1,464 | $ 1,411,159 | $ 1,350,581 |

Schedule 2

## AGRICULTURE FINANCIAL SERVICES CORPORATION

## SCHEDULE OF SALARIES AND BENEFITS

## YEAR ENDED MARCH 31, 2013

(dollars in thousands)

| | 2013 | | | | 2012 |
|---|---|---|---|---|---|
| | Base Salary[1] | Other Cash Benefits[2] | Other Non-cash Benefits[3] | Total | Total |
| Chairman of Board | $ 81 | $ - | $ 1 | $ 82 | $ 74 |
| Board members[4] | 265 | - | 6 | 271 | 251 |
| President and Managing Director | 475 | 42 | 154 | 671 | 573 |
| Vice-Presidents | | | | | |
| Senior Vice-President, Corporate Services | 249 | 20 | 77 | 346 | 305 |
| Chief Operating Officer | 240 | 27 | 73 | 340 | 309 |
| Vice-President, Human Resources & Culture | 228 | 22 | 70 | 320 | 279 |
| Vice-President, Sales & Market | 222 | 21 | 67 | 310 | 276 |
| Vice-President, Innovation & Product Development[5] | 65 | 39 | 21 | 125 | - |
| Chief Information Officer[5] | 63 | 12 | 20 | 95 | - |
| Chief Financial Officer[5] | 60 | - | 20 | 80 | - |

(1) Base salaries are fees for Chair and Board members and base pay for employees.

(2) Other cash benefits include vacation payments and lump sum payments. There were no bonuses paid during the year.

(3) Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees, including health care, dental, medical and vision care, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

(4) The amounts relate to eleven Board members during 2012/13 (ten in 2011/12).

(5) Positions commenced December 1, 2012.

# ALBERTA LIVESTOCK AND MEAT AGENCY LTD.

FINANCIAL STATEMENTS
Year ended March 31, 2013

Independent Auditor's Report

Statement of Operations

Statement of Financial Position

Statement of Cash Flows

Notes to the Financial Statements

Schedule of Expenses – Directly Incurred Detailed by Object

Schedule of Salary and Benefits

Schedule of Related Party Transactions

AUDITOR GENERAL *Alberta*

# Independent Auditor's Report

To the Board of Directors of the Alberta Livestock and Meat Agency Ltd.

## Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Livestock and Meat Agency Ltd., which comprise the statement of financial position as at March 31, 2013, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Livestock and Meat Agency Ltd., as at March 31, 2013, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]
Auditor General

May 27, 2013
Edmonton, Alberta

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2013
(in thousands)

| | 2013 Budget | 2013 Actual | 2012 Actual |
|---|---|---|---|
| **Revenues** | | | |
| Government Transfers | $ 36,763 | $ 35,099 | $ 35,031 |
| Other Revenue | 50 | 292 | 280 |
| Livestock Development | 2,175 | 2,137 | 3,964 |
| | **$ 38,988** | **$ 37,528** | **$ 39,275** |
| **Expenses - Directly Incurred (Schedule 1)** | | | |
| Industry Investment | $ 16,069 | $ 14,862 | $ 15,884 |
| Strategic Initiatives | 15,654 | 16,860 | 16,262 |
| Corporate Services | 5,190 | 3,427 | 3,101 |
| Livestock Development | 2,175 | 2,137 | 3,964 |
| | **$ 39,088** | **$ 37,286** | **$ 39,211** |
| **Net Operating Results** | **$ (100)** | **$ 242** | **$ 64** |

*The accompanying notes and schedules are part of these financial statements.*

Approved by the Board of Directors:

Dr. David A. Chalack, Chair of the Board

Ron Jackson, Chair, Audit, Finance and Risk Committee

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2013
(in thousands)

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Cash | $ 4,735 | $ 14,043 |
| Due from Government of Alberta | 8,812 | 7,360 |
| Accounts Receivable | 37 | 23 |
| Tangible Capital Assets (Note 3) | 1,603 | 1,361 |
| | **$ 15,187** | **$ 22,787** |
| **Liabilities** | | |
| Accounts Payable and Accrued Liabilities | $ 1,641 | $ 3,025 |
| Grants Payable | 5,417 | 9,867 |
| Deferred Revenue (Note 4) | 3,840 | 5,848 |
| | **$ 10,898** | **$ 18,740** |
| **Net Assets** | | |
| Net Assets at Beginning of Year | $ 4,047 | $ 3,983 |
| Net Operating Results | 242 | 64 |
| Net Assets at End of Year | 4,289 | 4,047 |
| | **$ 15,187** | **$ 22,787** |

Contractual Obligations (Note 5)

*The accompanying notes and schedules are part of these financial statements.*

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2013
(in thousands)

| | 2013 | 2012 |
|---|---|---|
| **Operating Transactions** | | |
| Net Operating Results | $ 242 | $ 64 |
| Non-cash Items Included in Net Operating Results - | | |
| Amortization | 278 | 218 |
| Loss on Disposal of Tangible Capital Assets | 6 | - |
| | **$ 526** | **$ 282** |
| (Increase) Decrease in Accounts Receivable and Due from Government of Alberta | $ (1,466) | $ 2,300 |
| (Decrease) Increase in Accounts Payable and Accrued Liabilities | (1,384) | 2,458 |
| Decrease in Grants Payable | (4,450) | (6,022) |
| Decrease in Deferred Revenue | (2,008) | (3,677) |
| Cash Applied to Operating Transactions | **$ (8,782)** | **$ (4,659)** |
| **Capital Transactions** | | |
| Acquisition of Tangible Capital Assets | $ (545) | $ (332) |
| Transfer of Tangible Capital Assets to | | |
| Department of Agriculture and Rural Development | 19 | - |
| Cash Applied to Capital Transactions | **$ (526)** | **$ (332)** |
| **Decrease in Cash** | **(9,308)** | **(4,991)** |
| **Cash at Beginning of Year** | **14,043** | **19,034** |
| **Cash at End of Year** | **$ 4,735** | **$ 14,043** |

*The accompanying notes and schedules are part of these financial statements.*

**Notes to the Financial Statements for the Year Ended March 31, 2013**

**Note 1 Authority and Purpose**

The Alberta Livestock and Meat Agency Ltd. was incorporated on January 29, 2009 under the *Alberta Business Corporations Act* (Alberta).

The Alberta Livestock and Meat Agency Ltd. (ALMA) is a subsidiary of the Ministry of Agriculture and Rural Development of the Province of Alberta. The Ministry of Agriculture and Rural Development and its wholly owned subsidiaries are exempt from the payment of income tax under Section 149 of the *Income Tax Act*.

The ALMA was established to revitalize Alberta's livestock and meat industry and to act as a catalyst to help enhance industry competitiveness and profitability.

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**Note 2 Summary of Significant Accounting Policies and Reporting Practices**

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

**Basis of Financial Reporting**

**Adoption of New Accounting Standards**

Effective April 1, 2012, the ALMA adopted PS 3410, Government Transfers. No adjustments to assets and liabilities were required.

In addition, effective April 1, 2012, the ALMA adopted PS 3450, Financial Instruments. No adjustment to financial assets and liabilities was required. These statements do not present a Statement of Re-measurement Gains and Losses as the ALMA has no re-measurement gains or losses.

**Revenues** - All revenues are reported on the accrual basis of accounting.

*Government Transfers* – Transfers from the Government of Alberta are referred to as government transfers. All government transfers, without terms for the use of the transfer, are recorded as revenue when the ALMA is eligible to receive the funds.

**Expenses**

*Directly Incurred* - Directly incurred expenses are those costs the ALMA has primary responsibility and accountability for, as reflected in the government's budget documents.

In additional to the program operating expenses such as salaries, supplies, etc., directly incurred expenses also include amortization of tangible capital assets and pension costs, which are the cost of employer contributions for current service of employees during the year.

Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

**Cash** – Cash consists of deposits in the Consolidated Cash Investment Trust Fund, which is managed by Alberta Treasury Board and Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

**Assets** – Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets are limited to financial claims, such as advances to and receivables from other organizations.

Tangible capital assets are recorded at historical cost and amortized on a straight-line basis over the estimate useful lives of the assets. The threshold for capitalizing new systems development is $250,000 and the threshold for major systems enhancements is $100,000. The threshold for all other tangible capital assets is $5,000. Amortization is only charged if the tangible capital asset is in use.

**Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)**

**Liabilities** - Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Grants payable are recognized when eligibility criteria are met and a reasonable estimate of the amounts can be made.

Restricted fund obligations are recorded as deferred revenue until the period when the related expenses are incurred, then they are recognized as revenue.

**Net Assets** - Net assets represents the difference between the carrying value of assets held by the ALMA and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The ALMA operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

**Valuation of Financial Assets and Liabilities**

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of Cash, Due from Government of Alberta, Accounts Receivable, Accounts Payable and Accrued Liabilities and Grants Payable are estimated to approximate their carrying values because of the short-term nature of these instruments.

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**Note 3 Tangible Capital Assets**
(in thousands)

| Estimated Useful Life | Equipment and Vehicles 10 years | Computer Hardware and Software 3 -5 years | Leasehold Improvements 5 years | Total |
|---|---|---|---|---|
| **Historical Cost** [1] | | | | |
| Beginning of Year | $ 897 | $ 827 | $ 133 | $ 1,857 |
| Additions | - | 545 | - | 545 |
| Disposals [2] | (9) | (45) | - | (54) |
| | $ 888 | $ 1,327 | $ 133 | $ 2,348 |
| **Accumulated Amortization** | | | | |
| Beginning of Year | $ 245 | $ 178 | $ 73 | $ 496 |
| Amortization Expense | 89 | 162 | 27 | 278 |
| Effect of Disposals [2] | (3) | (26) | - | (29) |
| | $ 331 | $ 314 | $ 100 | $ 745 |
| **Net Book Value at March 31, 2013** | $ 557 | $ 1,013 | $ 33 | $ 1,603 |
| **Net Book Value at March 31, 2012** | $ 652 | $ 649 | $ 60 | $ 1,361 |

[1] Historical cost includes work-in-progress at March 31, 2013 totaling $240 comprised of computer software (2012 - $287).
[2] Includes transfer of computer hardware to Department of Agriculture and Rural Development, comprised of historical cost of $45 and accumulated amortization of $26.

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**Note 4 Deferred Revenue**
(in thousands)

As at March 31, 2009 the ALMA assumed responsibility for the majority of assets and liabilities under the terms of two separate Assignment, Novation and Transfer Agreements with the Alberta Livestock Industry Development Fund (ALIDF) and the Diversified Livestock Fund of Alberta (DLFOA). The transfer includes restricted fund obligations assumed by the ALMA which are recorded as Deferred Revenue. Details for each fund and the status of these obligations are as follows:

| | 2013 | | | 2012 |
|---|---|---|---|---|
| | Contractual Obligations | Deferred Revenue | Total | Total |
| ALIDF Fund 2 - 2004 Post BSE Commercialization and Development | $ 145 | $ 136 | $ 281 | $ 724 |
| ALIDF Fund 7 - 2008 Enhanced Livestock and Meat Sector Initiative | 576 | 452 | 1,028 | 1,709 |
| DLFOA Fund 5 - 2008 Diversified Livestock Research and Development | 74 | 2,457 | 2,531 | 3,415 |
| | $ 795 | $ 3,045 | $ 3,840 | $ 5,848 |

**Note 5 Contractual Obligations**
(in thousands)

Contractual obligations are obligations of the ALMA to others that will become liabilities in the future when the terms of those contracts or agreements are met.

| | 2013 | 2012 |
|---|---|---|
| Obligations: | | |
| Operating Leases | $ 884 | $ 1,642 |
| Contracts | 158 | 417 |
| Programs | 7,241 | 13,555 |
| | $ 8,283 | $ 15,614 |

Program obligations consist of obligations to disburse funds in accordance with the terms specified in the grant agreements with various applicants as approved by the respective Boards of the ALIDF ($721) and the DLFOA ($74). In addition, the ALMA has obligations resulting from new grant agreements ($6,446).

Estimated payment requirements for each of the next four years are as follows:

| | Operating Leases | Contracts | Programs | Total |
|---|---|---|---|---|
| 2013-14 | $ 758 | $ 158 | $ 4,437 | $ 5,353 |
| 2014-15 | 126 | - | 1,901 | 2,027 |
| 2015-16 | - | - | 688 | 688 |
| 2016-17 | - | - | 215 | 215 |
| | $ 884 | $ 158 | $ 7,241 | $ 8,283 |

**Note 6 Benefit Plans**
(in thousands)

The ALMA participates in the multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $382 for the year ended March 31, 2013 (2012 - $332).

At December 31, 2011, the Management Employees Pension Plan reported a deficiency of $303,423 (2011 – deficiency $517,726), the Public Service Pension Plan reported a deficiency of $1,645,141 (2011 - deficiency $1,790,383), and the Supplementary Retirement Plan for Public Service Managers had a deficiency of $51,870 (2011 – deficiency $53,489).

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**Note 7 Comparative Figures**

Certain 2012 figures have been reclassified to conform to the 2013 presentation.

Schedule 1

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.

SCHEDULE TO FINANCIAL STATEMENTS

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

YEAR ENDED MARCH 31, 2013
(in thousands)

| | 2013 Budget | 2013 Actual | 2012 Actual |
|---|---|---|---|
| Salaries, Wages and Employee Benefits | $ 3,597 | $ 3,277 | $ 2,960 |
| Supplies and Services | 5,184 | 2,819 | 2,900 |
| Grants | 30,157 | 30,906 | 33,133 |
| Loss on Disposal of Tangible Capital Assets | - | 6 | - |
| Amortization of Tangible Capital Assets | 150 | 278 | 218 |
| | $ 39,088 | $ 37,286 | $ 39,211 |

Schedule 2

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.

SCHEDULE OF SALARY AND BENEFITS DISCLOSURE

YEAR ENDED MARCH 31, 2013
(in thousands)

| | 2013 | | | | 2012 |
|---|---|---|---|---|---|
| | Base Salary [1] | Other Cash Benefits [2] | Other Non-Cash Benefits [3] | Total | Total |
| Chairman of Board [4] | $ 172 | - | - | $ 172 | $ 182 |
| Board Members [4] | $ 344 | - | - | $ 344 | $ 406 |
| President and Chief Executive Officer | $ 191 | 9 | 39 | $ 239 | $ 229 |

Prepared in accordance with Treasury Board Directive 12/98 as amended.

(1) Base salary includes fees for Chair and Board members and pensionable base pay for employees.

(2) Other cash benefits include an automobile allowance and health spending account payments. There were no bonuses paid in 2013.

(3) Other non-cash benefits include government's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, and short and long term disability plans.

(4) The Board consists of a maximum of 12 members including the Chairman, whose salary is disclosed separately. As of March 31, 2013, there were 3 positions vacant. During the year, the equivalent of 11 positions were occupied.

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.

SCHEDULE OF RELATED PARTY TRANSACTIONS

YEAR ENDED MARCH 31, 2013
(in thousands)

Related parties are those entities consolidated or accounted for on a modified equity basis in the Government of Alberta's financial statements.

The ALMA and its employees paid certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The ALMA had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

| | Entities in the Ministry | | Other Entities [1] | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Grants | $ 35,099 | $ 35,031 | $ - | $ - |
| | $ 35,099 | $ 35,031 | $ - | $ - |
| Expenses - Directly Incurred: | | | | |
| Grants | $ 602 | $ 1,295 | $ 10,207 | $ 10,385 |
| Other services | - | - | 21 | 44 |
| | $ 602 | $ 1,295 | $ 10,228 | $ 10,429 |
| Tangible Capital Assets Transferred to | | | | |
| Department of Agriculture and Rural Development | $ 19 | $ - | $ - | $ - |
| | $ 19 | $ - | $ - | $ - |
| Payable to | | | | |
| Agriculture Financial Services Corporation | $ - | $ 6 | $ - | $ - |
| Department of Agriculture and Rural Development | 749 | 1,372 | - | - |
| Ministry of Treasury Board and Finance | - | - | 1,033 | 2,352 |
| Ministry of Enterprise and Advanced Education | - | - | 732 | 3,856 |
| | $ 749 | $ 1,378 | $ 1,765 | $ 6,208 |
| Receivable from | | | | |
| Department of Agriculture and Rural Development | $ 8,788 | $ 7,334 | $ - | $ - |
| Ministry of Enterprise and Advanced Education | - | - | 24 | 26 |
| | $ 8,788 | $ 7,334 | $ 24 | $ 26 |

[1] Other entities include schools, universities, colleges and health authorities.

## Summary of Financial Information

* Information on this page has not been audited *

**Statement of Remissions, Compromises and Write-Offs for the Year Ended March 31, 2013**

The following statement has been prepared pursuant to Section 23 of the *Financial Administration Act*. The statement includes all remissions, compromises and write-offs made or approved during the fiscal year.

**Write-offs**

| | |
|---|---|
| Departmental accounts receivable | $ 4,771 |
| Agriculture Financial Services Corporation | 8,599,931 |
| **Total remissions, compromises and write-offs** | **$ 8,604,702** |

The following statement has been prepared pursuant to Section 75 of the *Financial Administration Act*. The statement includes all guarantees, indemnities, payments and recoveries made during the fiscal year.

**Statement of Guarantees and Indemnities Given by Provincial Corporations for the Year Ended March 31, 2013**

| Program/Borrower | Amount of Guarantee or Indemnity | Payments | Recoveries |
|---|---|---|---|
| Agriculture Financial Services Corporation | $ 675,000 | | $ 245 |
| **Total guarantees and indemnities given** | **$ 675,000** | **-** | **$ 245** |

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT 2012-13

**www.agric.gov.ab.ca**

Print version: ISSN 1922-9917
Electronic (Online): ISSN 2291-4544